

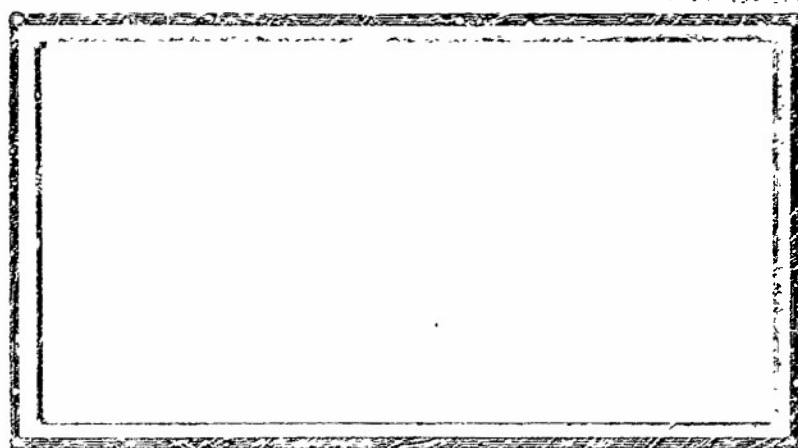
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THE SPECIAL DEFENSE ACQUISITION FUND -  
HAS IT IMPROVED THE READINESS POSTURE?

THESIS

Nancy P. Morse, B.S.  
GS-12, AFLC

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THE SPECIAL DEFENSE ACQUISITION FUND -  
HAS IT IMPROVED THE READINESS POSTURE?

THESIS

Presented to the Faculty of the School of Systems and Logistics  
of the Air Force Institute of Technology

Air University

In Partial Fulfillment of the  
Requirements for the Degree of  
Master of Science in Logistics Management

Nancy P. Morse, B.S.

GS-12, AFLC

September 1988

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## Preface

The purpose of this research project was to present an evaluation of the Special Defense Acquisition Fund to determine its impact upon United States Air Force readiness. Available literature was brought together and consolidated to provide an historical framework to show events prior to and following the formation of the SDAF until the date of finalization of this product. A section within the Introduction has been included to provide a definition of terms.

In gathering data and writing this thesis, I have had a great deal of help from others. I would like to extend my appreciation to my faculty advisor, Dr. Craig Brandt, for his continuing patience and assistance. Dr. Louis Samelson provided a wealth of background with his knowledge and additional sources to aid in completion of this research, and I extend a word of thanks to him. Many others contributed to the success of this project through sharing their time and knowledge about the SDAF. Thanks to all of you.

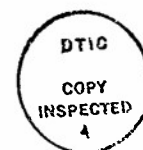
As a final note and probably the one most deserved, I extend my appreciation and thanks to my three daughters, Heather, Carrie, and Deborah, and to Marjorie and Don, who all shared in my research effort through personal sacrifice and understanding. I especially thank them for their encouragement, their support, and for their excitement with my accomplishments.

Nancy P. Morse

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Abstract

This research presents an overview of the historical background which led to the creation of the Special Defense Acquisition Fund and an analysis of the program to determine if it has improved the readiness posture. Utilizing both the review of the available literature and personal interviews, it presents discussions on the SDAF's objectives to provide equipment to meet urgent foreign needs or payback of equipment to military departments while minimizing adverse impacts on the combat readiness of U.S. forces. Also evaluated is the secondary objective of smoothing production for increased efficiency and cost savings for both foreign and Defense Department procurements.

In presenting the results of this research, criteria for identifying and selecting candidates for procurement is evaluated as well as the account funding and capitalization. The SDAF operation is also explained from the point of the decision to buy an item utilizing the SDAF through the allocation of assets to meet foreign requirements. Included in this discussion are highlights of current sales efforts supporting the objectives of the fund. Program limitations to effective SDAF management are identified and actions initiated to either enact legislative change or implement improvements for better management are addressed. A discussion is also provided showing what items have been purchased and allocated

are discussed as well as  
and the fund's financial status. Further, a discussion is  
presented to address the adequacy of account controls and  
procedures. Additional Congressional concerns regarding the  
intent of the SDAF are also presented.

*It is noted*  
The conclusion as a result of this research was that the  
SDAF has improved readiness and has fulfilled its intent  
within limitations. However, funds have been inadequate for  
optimal support, and improvements in written and mechanized  
procedures as well as communications among all levels were  
needed. It has also improved other areas not defined in the  
original program intent.

*A Keyword: ... (edc) ←*

THE SPECIAL DEFENSE ACQUISITION FUND (S. ) -  
HAS IT IMPROVED THE READINESS POSTU. :

I. Introduction

Security assistance . . . has been part of international relations as long as man has been preparing for and engaging in war. Whenever it was assumed to be in the best interests of one nation to give or sell arms or other military support to another, arms transfers of some type have taken place. The supply and demand for arms have been and remain a natural consequence of the desire for achieving national goals while at the same time maintaining national security [6:1-8].

Background

Security assistance, in one form or another, has been a part of our country's foreign policy since early in its history. The earliest occurrence of security assistance was during the American War of Independence when the French transferred arms and other military assistance to support the American cause. Since that time, different foreign policy philosophies have emerged regarding arms transfers, with the predominant one developing from World War II (6:1-8+). When the United States turned from isolationism to globalism following World War II, it committed itself to help the free states and contain communism (16:35+). As a part of its current foreign policy, the United States has been heavily involved in security assistance in promoting national security, world stability, and human rights (6:1-8+).

Security assistance deals with a nation's most politically sensitive issues, including how to pick and choose allies, where to seek major military equipment, and when to share bases or facilities with the armed forces of another nation (4:46). The United States uses security assistance to support allies and friendly countries in their efforts to defend themselves and to deter outside threats. Security assistance also gives the United States the influence necessary to be a mediator during conflicts and provides a vehicle to retain base rights in strategic locations. In addition, arms transfers allow American allies and other friendly countries to defend themselves, reducing the need for American involvement (6:1-1+). While arms transfers are not a substitute for other forms of diplomacy with foreign nations and cannot always guarantee achievement of U.S. national policy objectives, they are a necessary part of foreign relations to aid friendly countries in deterring aggression or defending themselves against hostilities. As pointed out by the Undersecretary of State for Security Assistance, William Schneider, Jr., in The Management of Security Assistance,

. . . arms transfers should be and are an integral part of our security relationships with friendly countries who seek to deter and defend against neighbors who are, most likely, armed by the Soviets or other East Bloc countries. As I stated earlier in my testimony, if we want reliable friends, we must be one ourselves. Countries who cast their lot with the United States must know that they can count on our support to meet their legitimate military needs. Failure to respond prudently and appropriately to these needs would seriously damage our credibility as a leader of the free world, would increase the chances of U.S. forces having to be deployed in a crisis, and would jeopardize

defense cooperation with countries which provide access and facilities to U.S. military. Our ability to supply friendly nations with appropriate arms contributes to a reduction in what would be larger U.S. defense needs to meet our national security objectives [6:1-27].

Several forms of security assistance are available. They range from grant military assistance programs which are funded through United States appropriations to foreign military sales programs which are paid for by the respective countries (6:2-8+).

In testimony presented in the hearings on foreign assistance legislation for FY 1988-89, Admiral W. J. Crowe, Jr., USN, Chairman of the Joint Chiefs of Staff, presented a portrayal of the preponderance of the security assistance needs of the United States' friends and allies. He pointed out that low-intensity conflicts within foreign countries is where much of the U.S. support is applied. Foreign governments generally do not require a lot of sophisticated military equipment, but they do need equipment to allow them to extend the reach of their governments and sustain themselves on a country-wide basis . . . (30:24). Some examples of required foreign support that Admiral Crowe presented in his testimony were items like communications equipment, aircraft and patrol boats for surveillance, and lightweight firearms. He further indicated that these capabilities can aid in countering drug traffic and can be effective in building the nation (30:24).

United States foreign policy frequently dictates that foreign governments receive rapid delivery for urgent/emergency requirements, with the drawdown of United States

military equipment possibly contributing more to the U.S. national interests than to adverse readiness impacts. One example of rapid delivery required to meet an emergency condition where the United States' ability to respond to such crises was generally tested was during the Yom Kippur War in 1973, which was the first U.S. "experience with the impact of modern high intensity warfare on readiness" in supporting a foreign military sales emergency (10:10). In order to provide Israel with the required support, the U.S. experienced a substantial drawdown of military equipment. Of prime importance, however, is the possibility that drawdowns such as the one experienced in 1973 could lead to adverse impacts on the United States readiness posture by reducing its ability to respond to hostilities (10:10;21:23;24). Based on this experience, the need for a program such as the Special Defense Acquisition Fund (SDAF) was identified, and program approval was pursued under the Carter administration and approved under the Reagan administration (10:10;24). More detailed discussions about the Yom Kippur War and readiness impacts are presented in Chapter II.

In evaluating the past support of urgent needs to foreign customers, most of the foreign military sales (FMS) requirements were satisfied with no adverse readiness impact on the U.S. forces. In cases of emergency, urgent requirements were either supplied to foreign customers from U.S. stocks or diverted from production, making inventory replenishment lead

foreign military modernization programs were also delayed because of diversions to meet other emergency foreign requirements (11:1). Because of the withdrawals and diversions, however, it was clearly evident that a system was needed to "enhance the President's ability to fulfill urgent requirements to allied and friendly nations while minimizing potential adverse impacts on the modernization or readiness of U.S. forces" (10:10). The system identified to aid in meeting these needs was to be the Special Defense Acquisition Fund.

The original concept for the SDAF program, which was unacceptable to the Congress, was to stockpile critical items in advance of foreign requirements. Congress believed the proposed program was a means for the military to obtain additional equipment and rejected the idea. The concept was restructured and presented again to Congress in 1981. At that time, the SDAF was presented as a revolving fund to finance the acquisition of defense material and services for eligible countries. Funding would be through a portion of FMS dollars normally deposited as miscellaneous receipts in the U.S. Treasury. The program would be funded from previous FMS sales of items to include non-recurring research, development, and production costs charged foreign governments on a prorated basis for U.S. recoupment, asset use and facility rental charges for use of DOD facilities and equipment, and sales from SDAF-procured items. The SDAF account was to be capitalized and then reimbursed through sales and transfers of items carried in the account. After considerable discussion,



the SDAF was finally approved by Congress and authorized in the International Security and Development Cooperation Act of 1981. This act added a new Chapter 5 to the Arms Export Control Act (AECA) (6:11;24;27:285-287).

As described in this introductory background, the intent of the SDAF is to provide advance procurement of critical military equipment which may be urgently required by foreign governments (6:13;12). Furthermore, the SDAF was developed to enhance the President's ability to respond to security assistance foreign policy requirements, to increase efficiency and reduce costs for both for foreign and Defense Department procurements, and to reduce lead times for supplying items to meet foreign needs or payback to U.S. military forces (11:2). No in-depth study has been conducted of the overall program to accumulate all available information in one location to provide an historical perspective and to determine if the SDAF has satisfied the intent under which it was established.

#### Problem Statement

The specific problem addressed in this thesis is to determine whether the SDAF has improved the readiness posture of the United States forces.

#### Investigative Questions

Answers to the following questions will be pursued to address whether the SDAF has improved the FMS posture and assess the impact of the fund on United States readiness.

Results obtained from analysis of these areas will aid in addressing the research problem.

1. What are the procedures for identifying, buying, and distributing the SDAF items? Are they adequate?
2. What items have been purchased for the SDAF?
3. How are the SDAF items controlled?
4. Has funding been adequate; if not, has it hampered the SDAF goals?
5. Have the foreign governments requisitioned the items purchased with SDAF funds?
6. Have lead times for items been shortened for the countries because of the SDAF? If so, by how much?
7. Were SDAF buys consolidated with U.S. military service buys for mutual savings? How much savings?
8. Have any critical drawdowns been experienced since the program's inception? If so, what?
9. Is there any one SDAF objective which may be more important than others identified? If so, what?
10. What has been the readiness impact of the program upon the United States forces?

#### Scope and Limitations

This research will address information pertinent to answering the research question, which is whether the SDAF has improved Foreign Military Sales (FMS) posture without adversely impacting the readiness of the United States forces. It is not the intent of this thesis to evaluate foreign policy issues, but to address only whether the SDAF is functioning according to the intent for which it was founded. In accomplishing this aspect, more specific details about the operational aspects of the program will be sought to determine

the actual operation of the SDAF program and evaluate whether it is meeting its intent. An evaluation of which recipient countries received how much from the SDAF will not be attempted, although the answer to a general question as to whether some countries receive preference over others will be addressed. While all services are involved with the SDAF, only the United States Air Force and Army participation in the fund will be evaluated. This research will also exclude the review and exposure of classified information.

#### Definition of Terms

Arms Transfers. Defense articles and defense services, such as arms, ammunition, and implements of war, including components thereof, and the training, manufacturing licenses, technical assistance and technical data related thereto, provided by the government under the Foreign Assistance Act of 1961, as amended; other statutory authority; or directly by commercial firms to foreign countries; foreign private firms, or to international organizations.

Case. A contractual sales agreement between the U.S. and an eligible foreign country or international organization documented by DD Form 1513. One FMS case identifier is assigned for the purpose of identification, accounting, and data processing for each offer.

Case Designator. A unique designator assigned by the implementing agency to each FMS case. The designator originates with the offer of a sale, identifies the case through all subsequent transactions [6:B-2+].

Fiscal Year (FY). The 12-month period which begins 1 Oct of one calendar year and ends 30 September of the next calendar year.

Foreign Military Sales (FMS). That portion of U.S. security assistance authorized by the Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act, as amended. The recipient country provides reimbursement for defense articles and services transferred.

Grant Aid. Military assistance rendered under the authority of the FAA for which the United States receives no dollar reimbursement.

Letter of Offer and Acceptance (LOA). U.S. Department of Defense (DD) Form 1513 offer and acceptance by which the U.S. Government offers to sell to a foreign government or international organization defense articles and services pursuant to the Arms Export Control Act, as amended. The DD Form 1513 lists the items and/or services, estimated costs, the terms and conditions of sale, and provides for the foreign government's signature to indicate acceptance.

Military Assistance Program (MAP). That portion of the U.S. security assistance authorized by the Foreign Assistance Act of 1961, as amended, which provides defense articles and services to recipients on a nonreimbursable (grant) basis.

Planning and Review (P&R) Data. Prepared by the military departments, DSAA, and other DOD components in response to a foreign government request for preliminary data for the possible purchase of a defense article or service. P&R data is not considered valid for the preparation of an LOA, nor is it a commitment for the U.S. Government to offer for sale such articles and services for which P&R data is provided.

Price and Availability (P&A) Data. Estimate of price and availability of defense articles and services of sufficient accuracy to be used for the preparation of an LOA. P&A data provided separately from a LOA does not constitute a commitment by the U.S. Government to offer for sale the articles or services for which the estimate was prepared.

Security Assistance. A group of programs authorized by the Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act, as amended, or other related statutes by which the United States provides defense articles, military training, and other defense related services, by grant, credit or cash sales, in furtherance of national policies and objectives [6:B-10+].

Security Assistance Organizations (SAOs). Encompasses all DOD elements located in a foreign country with assigned responsibilities for carrying out security assistance management functions. For instance, it includes military missions, military groups, offices of defense cooperation, liaison groups, and defense attache personnel designated to perform security assistance functions [6:5-14].

## Organization of the Thesis

This introduction has provided general background about security assistance and its use by the United States as a political tool. It has also provided both background information to enable the reader to understand why and how the SDAF was established and a general overview of the SDAF objectives. Further, the problem statement, investigative questions, and scope and limitations of this thesis were presented. Definitions of unfamiliar terms used in this thesis were provided as a basis for common understanding of relevant elaborate on definitions within the various discussions which may interrupt the logical flow of events presented in development of the discussions presented in this research.

Following this introduction, the literature review is presented in Chapter II. The Chapter II Literature Review provides summaries of pertinent literature reviewed in order to arrive at answers to the investigative questions and basic research question. It also includes clarification of events by discussions with knowledgeable people of events where gaps were found in the literature. The methods and procedures used to collect and evaluate the data and information are discussed in Chapter III, Research Methodology. Chapter IV presents an analysis of the findings as a result of this research project, and Chapter V provides the conclusions and recommendations.

## II. Literature Review

. . . a nation's professional military will always want to give priority to the equipment and readiness of its own armed forces. Yet there is the risk that large arms transfers, rapidly made, may reduce the supplier state's own inventory and diminish its military preparedness [21:23].

### Pre-SDAF Environment

Most Security Assistance Program (SAP) requirements are satisfied routinely from production through normal procurement procedures without adverse impact on the United States forces. However, throughout the years, various administrations have been aware of the need to provide a program like the SDAF to improve the United States' ability to respond to the urgent needs of friendly nations and allies. At the same time, the concern for maintaining the U.S. readiness posture without depleting critical equipment/spares has also been a consideration. This concern is derived from the potential adverse impact on readiness by drawing down inventory needed to support U.S. forces during wartime conditions. Some withdrawals of critical equipment are likely to occur in the future as they have in the past. Based on potential threats to national security, it may be prudent to provide critical equipment for support of foreign requirements, with that support outweighing the potential detriments to the U.S. readiness posture (10:10).

One example of a massive drawdown of military equipment occurred in 1973 in support of Israel during the Yom Kippur

war. This was the United States' "first experience with the impact of modern high intensity warfare on readiness" in supporting a foreign emergency (10:10). This supply effort provided Israel with large quantities of equipment which included items like fighter aircraft, air munitions, bombs, tanks, antitank guided missiles, and ammunitions. The dollars associated with this support for resupply was \$2.2 billion in FY 85 dollars. It is expected that this same kind of effort could be required in the future for one or more of the U.S. allies. During recent years, the United States has also responded to many urgent requests for security assistance based on various politico-military reasons. Some examples of the countries involved in the U.S. responses to meet urgent requirements have been Yemen, Jordan, Thailand, Oman, El Salvador, Pakistan, and Lebanon (10:10).

Mr. Langley B. James of the Defense Security Assistance Agency (DSAA) provided statistics which were generated from a DOD study of potential diversions/withdrawals of defense items from the U.S. military forces and compared actual statistics which were used to meet critical foreign requirements. According to Mr. James, in 1980, the DOD completed a study of items which would be needed to meet foreign needs caused by continuing conflicts in the Middle East. Most of the items identified impacted Army inventories, which were in short supply of the items identified. Needs projected for these short-supply items for five countries alone were valued at over \$1.5 billion and did not include Air Force or Navy items.

Early supply of these items to support FMS countries involved in confrontations could amount to several billion dollars over a one to two-year timeframe.

Additionally, Mr. James' statistics on diversions and withdrawals of defense items from FY 1978 through FY 1983 tend to support the conclusions drawn from the DOD study. Total diversions during that time were valued at \$1.9 billion. In FY 1983, the diversions from the Army alone amounted to \$426.5 million. Some of the equipment diversions since FY 1978 provided as examples included 482 tanks (nine battalions), 11,763 TOW missile, 311,442 rounds of 105mm tank ammunition, and 3,765 tactical radios. In addition, 127 tactical aircraft were diverted, which is equivalent to about 1.7 fighter wings. While Mr. Langley points out that these items have been paid back over time, and 'actual deficiencies at any given time are less than these figures,' providing support by diverting this material has resulted in low stock for many critical items (10:16).

Prior to establishment of the SDAF, then, United States' options to support urgent foreign military requirements were to provide items from U.S. stocks, divert equipment from production which were for the support of the U.S. forces, or turn down requests for security assistance. Diverting material or supplying material from U.S. stocks had the potential of degrading U.S. readiness, while turning down requests to the foreign countries had the potential of damaging U.S. national security and foreign policy concerns



(11:1-2). Because U.S. production capabilities have often little slack and procurement/production lead times for the items are generally long, diversions to meet foreign requirements resulted in a "vulnerability" for the United States (10:10). When items were diverted, replenishment for the U.S. forces was lead time away. Based on the lead times involved, this could be converted to required support several years away. In addition, diversions to meet urgent foreign needs also contributed to serious delays in supporting critical foreign military modernization programs. Even though this procedure of diversion created a vulnerability for the United States, advanced procurement of FMS requirements was prohibited by U.S. law (11:1).

There have also been instances where the U.S. Government was prevented from responding to requests for assistance. Examples of these requests for assistance, occurring during periods of tension or perceived threat, which were turned down because of lack of adequate items to support foreign requests were provided by General Graves. Dragon night sights and missiles, TOW missiles, and Redeye air defense missiles were requested during a 1980 flare-up of tension in the Middle East. Since the items were in short supply in the U.S. inventory and "diversions would have degraded the readiness of U.S. forces," the request was turned down. Another instance involved a Middle East country which requested early and expedited delivery of TOW night stands and TOW missiles to improve its readiness posture to counter threats stemming from

the Iran/Iraq War. These requests were also turned down. A last example provided by General Graves was in regards to a request for expedited delivery of M48 tanks, Howitzers, and Redeye missiles during East Asian unrest. Because support of the total quantity would have resulted in an unacceptable adverse impact, only a partial quantity was diverted from Army stocks to support the M48 tank request. The requests for Howitzers and Redeye missiles were turned down because items were in short supply in the Army inventory (33:156).

Although in the cases cited above full-scale hostilities did not occur, for the countries involved, the situation represented a serious threat to their interests. Moreover, had hostilities broken out we would have been unable to respond to their needs without degrading the combat readiness of our own forces [33:156].

Following the experience encountered during and after the Yom Kippur War and because of the support problems identified in diverting critical assets to fulfill urgent foreign requirements, various administrations recognized the need to create some kind of a special system to provide procurement of U.S. military equipment and services in advance of the foreign requirements. In an effort to aid in correcting the situation during the Carter administration, DOD requested \$300 million in its budget in FY 1976 for the purpose of establishing a revolving fund to buy defense articles in anticipation of foreign requirements. The Congress rejected the FY 1976 proposal, not based on the intent behind the request but on budgetary considerations. The Congress did, however, appear willing to consider augmenting U.S. inventories of critical

items. Again in DOD's FY 1981 budget proposal, around \$48 million was requested as a special contingency stockpile to buy Army artillery and vehicles which were considered critical material to the Army but would be used to support emergency needs presented by foreign countries. Congress also rejected this request as 'underwriting foreign assistance in the DOD budget, and thus, in competition with high priority needs of [the] U.S. forces' (10:11).

In the FY 1982 budget, the Reagan Administration presented the issue of advance procurement to meet foreign needs again, and the proposal was discussed and examined. The method presented in the FY 1982 budget submission, as opposed to the previous proposals which had competed with scarce DOD resources and the security assistance budget, was to propose an FY 1982 legislative change to the Arms Export Control Act (AECA) which would authorize the Department of Defense to establish a separate fund called the Special Defense Acquisition Fund (SDAF). The SDAF was to be funded by certain receipts from previous foreign military sales. The estimated DOD requirement submitted in the budget was for \$341 million by the end of FY 1982, and an estimated total of \$2.1 billion by FY 1987 (33:156). The proposed capitalization level of \$2.1 billion was based on the material support which had been provided to Israel in support of the Yom Kippur War (12). The subcommittee recommended adopting the proposal for the SDAF with two modifications. First, they recommended appropriation and authorization \$150 million for FY 1982. Second, they

recommended a requirement for a comprehensive report on the status of the fund to be provided to Congress annually by December 31st. The committee further stipulated that the SDAF should be required to compete for funds 'openly and on its merits and therefore be subject to the congressional oversight provided through the annual authorization and appropriation process' (33:XII,156).

Discussions from the FY 1982 Congressional hearings are supportive of the intent of the SDAF proposal and provide insight about past opposition based primarily on budgetary concerns. These issues are reflected in the answers provided by General Graves to questions raised by Chairman Zablocki.

Question. In what appears to be a proposal similar to what you recommended last year, General Graves, can you elaborate on your recommendation for a Special Defense Acquisition Account versus last year's Special Contingency Stockpile?

Answer. There is a real need to find some way to finance procurement in anticipation of foreign requirements, thus enhancing our ability to meet urgent needs of allied and friendly countries. Last year we proposed modest funding in the Defense budget for the Special Contingency Stockpile. Congress rejected that proposal, essentially because it considered financing it through the Defense budget to be inappropriate. We are now proposing a Special Defense Acquisition Fund (SDAF) to be capitalized from receipts from foreign sales. This will enable us to get on with the concept of advance procurement without competing for scarce resources in the DOD or security assistance budgets [33:155].

Additional questions asked by Mr. Zablocki regarding the intent of the SDAF concerned areas such as dealing with excess or obsolete assets, anticipating foreign needs, the types of military equipment that would be bought by the SDAF, and the possibility of increased foreign military sales as a result of

the SDAF account. In response, General Graves explained that item identification would focus not only on those items highly needed by foreign governments but also required by the U.S. forces. Therefore, he did not perceive that the SDAF would carry items not needed by one or the other. Demand would be projected based on item historical sales data and records of diversions as well as analysis of specific country requirements. General Graves also stated that he did not believe sales would increase significantly because of the existence of the SDAF. Rather, it may provide an opportunity for some countries to buy U.S. equipment in lieu of going to other sources and would reduce adverse readiness impacts experienced by U.S. forces when equipment was withdrawn from stock or diverted from production to meet foreign country security assistance requirements (33:157).

This time the Congress was more receptive to the proposal; the program was approved. With the approval of the SDAF, Section 108(a) of the International Security and Development Cooperation Act of 1981 added a new Chapter 5 to the Arms Export Control Act. This authorized the Secretary of Defense, in conjunction with the Secretary of State, to establish the fund to be used as a revolving fund separate from other accounts. It was further to be under the control of the DOD, and program management and operation of the SDAF was established under the Director, Defense Security Assistance Agency (DSAA) as the executive agent responsible for the SDAF day-to-day operations (10:11;11:1;29:27-28).

### The SDAF Is Established

The stated purpose of the SDAF is to finance the purchase of defense items and services in anticipation of their sale to authorized foreign countries to reduce lead times for foreign receipt of military equipment and protect U.S. readiness by reducing the likelihood equipment withdrawals from inventory or diversions from production (12). The criteria for sales of the SDAF items and services to foreign customers must be met under the provisions of the Arms Export Control Act, the Foreign Assistance Act of 1961, as amended, or other legislation as appropriate. The SDAF further is to accomplish the following objectives:

1. Enhance the President's ability to react to foreign policy requirements involving security assistance by providing capability to fulfill urgent needs of allied and friendly governments for military equipment while minimizing the adverse impact on the combat readiness of U.S. forces;
2. Provide an effective means to assist in smoothing rates of production, thus increasing efficiency and reducing costs of both foreign and Defense department weapons procurements;
3. Reduce procurement leadtimes for delivery of weapon systems to foreign governments, or, where items must be taken from U.S. forces, for payback to U.S. forces [11:2].

### Funding and Capitalization

SDAF operations are authorized annually through the joint jurisdiction of the Foreign Affairs (via 150 account) and the Armed Services (via 050 account) Committees in conjunction with the Appropriations Committees [58:1].

The 050 account is the DOD account which includes most defense appropriations, and the 150 account includes security

assistance. The 150 account includes the amount of money approved by the Congress for the annual SDAF procurements. This money represents the portion of the previously capitalized dollars that is approved for SDAF obligation for that year (58:1-2). The actual funding for the SDAF is through a portion of FMS dollars normally deposited to the U.S. Treasury and used to offset DOD outlays in the 050 account. By using the money generated from FMS sales for SDAF procurement operations, no direct DOD appropriations are required. However, Congressional approval to obligate the funds is required annually in the appropriations legislation (1:21;58:1).

Since its creation in 1982, the SDAF has been capitalized to its current level with dollars from previous FMS sales of items which include nonrecurring research, development, and production costs charged foreign governments on a prorated basis for U.S. recoupment; asset use and facility rental charges for use of DoD facilities and equipment; and sales from SDAF- procured items which reimburse the account (1:21;6:11;24; 33:XII). Obligations are incurred against the account for the purchase of defense items. The sales from these items are credited back into the account which permits the SDAF money to be used as a revolving fund. In this way, capital is available to initiate new procurements within the annual limits established by the Congress (54:14-1+). At the time of account capitalization, that money invested in capitalization becomes a sunk cost. As such, if the quantity

on hand and on order plus the annual authorization are less than the capitalization level, the difference is considered to be idle money (12).

As established by law (section 114(c) of Title 10, United States Code), the fund may not exceed the \$1.07 billion capitalization level cumulatively. This level includes the amount of funds authorized and available to buy equipment or services plus the value of those items held in the account or on order through the SDAF (36:226+;54:14-1). Column 2 of Table 1 shows the ceiling amounts authorized for the fund's capitalization in the respective fiscal years.

Even though the SDAF has been capitalized, Congressional authority is still required annually to allow obligation of funds via annual appropriations legislation (49:637). The requested obligation authority is presented to Congress annually based on what funds the DSAA needs to pursue the given fiscal year program. Table 1, Column 3 provides information from the annual Congressional Presentation Documents showing what was requested. Based on Congressional evaluation of the administration's proposal and final decisions rendered, the annual appropriations acts specify the dollars authorized in the SDAF that are available for obligation during the given fiscal year. The amounts for approved obligation authority provided since FY 1982 are shown in Column 4 of Table 1.

To begin the program process in FY 1982, the DOD requested a supplemental appropriations authority to Congress



Table 1

SDAF Capitalization Increments and  
Obligation Authority Amounts

(\$ In Thousands)

<u>Fiscal Year</u>	<u>Capitalization Increment (\$)</u>	<u>Obligation Authority Requested (\$)</u>	<u>Obligation Authority Approved (\$)</u>
1982	300,000		125,000
1983	300,000	249,500	125,000
1984	300,000	325,000	225,000
1985	0*	325,000	325,000
1986	100,000	345,000	311,000**
1987	70,000	350,000	315,920
1988	0	350,000	236,865
1989		350,000	236,865
Total	1,070,000		

\* No additional capitalization was requested in FY 1985, as the authorized obligation was below the cumulative capitalization ceiling.

\*\* Congress approved \$325M. However, this was reduced by 4.3% to \$311M based on a Gramm-Rudman cut.

(28:97;35:48;36:226-227;43:6;44:9;45:8;46:8;47:87;48:331;49:42;57)

concurrent with the budget request for FY 1983. Planning, however, had actually been geared to begin the program operation sometime in 1983. However, \$125 million became immediately available for the SDAF to begin procurements in September 1982 with the Congressional override of the President Reagan's veto of the Supplemental Appropriations Act. This left only 20 days in FY 1982 for DSAA to obligate the funds.. Military Interdepartmental Purchase Requests (MIPRs) were issued immediately to the Army and the Air Force

for the entire \$125 million to buy items including Maverick missiles, AN/TPS 70 radars. M60A3 tanks, and I-TOW missiles. All but around \$15 million of the \$125 million was successfully obligated. Thus, in this short timeframe, the initial procurement had begun and the program was underway (1:22).

As shown in Table 1, approved authorizations for the SDAF have been below the requested authorization levels except in FY 1985, with a significant difference appearing again in the FY 1988 timeframe. For the FY 1988 budget, the Administration had proposed increasing the obligation authority from the \$315.82 million authorized in FY 1987 to \$350 million, with that level being supportable with "the capital and receipts from expected SDAF sales" (48:353). The logic presented for the proposal was that a consistent annual program made sense for three reasons.

First, in avoiding disruptive peaks and valleys over time; second, in enabling the acquisition of diversified items to help on a range of pressured programs; and third, in achieving more economical rates with larger procurement orders [48:353].

However, Congress did not approve the raise to the \$350 million level. Rather, the Senate Appropriations Committee cut the proposal to \$250 million, and the House Appropriations Committee cut the obligation authority level even further to \$236.865 million. It was this lower obligation authority level which was approved and enacted for FY 1988 (22:15).

A drastic change to the SDAF capitalization was discussed in conjunction with the House Foreign Affairs Committee review

of the FY 1988 budget request for foreign assistance. The discussion was directed by a member of the committee to the Secretary of Defense, Mr. Weinberger, in regards to a GAO report recommending potential cost-saving measures within the foreign aid program. The recommendation was to eliminate the \$70 million fund increase which was authorized in FY 1987 or to eliminate the fund entirely for a savings of \$1.7 billion. Mr. Weinberger's response to the inquiry was that he did not recommend either a reduction or cancellation of the program, as it is an important way of distributing needed assistance (8:54;30:62). An additional response was provided explaining the establishment and intent of the SDAF. The proposed reduction of \$70 million, already deposited to the fund and used to authorize obligations against the SDAF, would result in the cancellation of existing obligations and on-going contract negotiations. In turn, this would result in termination charges against existing contracts. Also, lower quantities based on reductions for planned procurement of SDAF items and would result in increased unit costs to the DOD and other foreign customers. Additionally, if the SDAF were eliminated, the account would still continue to pay money out until final delivery of the assets on order, which was projected to be sometime in 1992 (30:297).

In an effort to maintain the SDAF in tact, the Secretary of Defense, Mr. Weinberger, the Secretary of the Army, Mr. Marsh, and the Commander-in-Chief of the Central Command, General Crist, each wrote letters to House Foreign Affairs

Committee (HFAC) Chairman Fascell expressing their concerns about the proposal to reduce or eliminate the SDAF and providing supporting rationale regarding SDAF contributions to matters pertaining to readiness and national objectives (3;14:61). Mr. Weinberger addressed the serious impact that fund reduction or elimination would have on the military departments' ability to "cope with continuing, worldwide crises" (6 ). He further stated that

We cannot return to the situation in which we found ourselves immediately after the 1973 Yom Kippur War . . . . The turmoil caused by that war and subsequent "hot spot" emergencies around the globe led to the establishment of the SDAF by Congress. Because of that Congressional action, we are now able to reduce adverse impacts on U.S. force readiness while responding to national security commitments [61].

In his letter, Mr. Marsh discussed the impact reduction or elimination of the fund would have on the Army, as the largest supplier of SDAF material. He stated that in most non-industrialized nations, the ground forces are the dominant service, and Army material provides the necessary flexibility to "meet insurgencies or external threats" (14). An example Mr. Marsh provided of a current application was the effort to counter the New People's Army (NPA) insurgency in the Philippines (14). General Crist further pointed out in his correspondence that the SDAF has aided countries in providing "for their own defense, thereby lessening the chances for commitment of US forces in the area" (3).

The fund was left at the \$1.07 billion capitalization level (36:226). As discussed by Lt Gen Philip C. Gast, DSAA

Director, "Congress also wisely rejected a proposal to reduce SDAF to the \$500 million level" (8:54;32:62).

#### SDAF Procurement

In order to identify those candidates for potential procurement through the SDAF, an annual procurement plan is developed by DSAA in conjunction with the State Department, the military departments, and the Joint Chiefs of Staff (46:48). The Security Assistance Management Manual (SAMM), DOD 5105.38-M, Chapter 14, which contains the policies and procedures governing the SDAF program administration, also lists criteria for selecting qualifying items.

Items should be those which, based on experience, judgement, and an analysis of the historical data and a projection of needs, are most likely to be needed to meet foreign requirements in less than normal procurement lead times.

Items should be those whose withdrawal from active or reserve force inventories, or diversion from production dedicated to active or reserve forces, would result in adverse impact on the combat readiness of U.S. forces.

Items should be capable of being produced from existing or expanded production lines.

Items should, if not transferred to meet foreign requirements, be required to meet established acquisition objectives of U.S. forces.

Items should have significant anticipated FMS demands.

Items should be those with long procurement lead times, particularly over 24 months.

Items should have the capability of being approved for foreign sale under current national disclosure policy [45:14-3+].

Further, for items which have been bought with SDAF funds and delivered, but not requisitioned by a foreign government,

the law permits temporary use of these defense articles by the military departments (27:285). However, the using agency is responsible for the operation and maintenance of these articles. If this equipment is later requisitioned by a foreign government, the military department pays the cost for restoring or replacing it (10:13). Use of the SDAF assets becomes an especially important area of consideration in cases of emergency situations. Should an emergency arise, the SDAF provides the military services access to additional equipment for temporary use if needed (18).

The manual further points out that no single criterion is used to determine whether or not items qualify for SDAF procurement. However, the law requires that emphasis be placed on items in short supply within the U.S. forces which also have anticipated demands by foreign customers. Experience, judgement, analysis of historical data, and projections of the foreign customer needs for immediate support are also paramount in determining the right material for purchase (54:14-3).

The DSAA makes the final decision on which equipment will be procured for the SDAF. While there is no set pattern to follow in identifying the particular items which are candidates for procurement other than the necessity to follow the requirements established by law and the selection guidelines established within The Security Assistance Management Manual, an evaluation is completed and decisions are made based on input from various sources which may be

considered as comparable to a market survey. Various sources for decisions include queries to the Security Assistance Organizations (SAOs) located within the foreign countries or the foreign countries themselves; the general market for items requested; 'hot spots' within the world; and from the Annual Integrated Assessment of Security Assistance (AIASA), which is the basis for formulation of the annual security assistance budget (18).

An example of a query utilized by the DSAA for planning purposes and to open a direct line of communication with selected countries was found in a request sent to selected country SAOs for recommended candidates for the FY 1989 SDAF procurements. The request for SDAF candidates was for identification from each office of at least three but no more than six of the most important items the country planned to buy under foreign military sales during FYs 1990 and 1991. The focus suggested by the DSAA was to be on major end items like radios, mortars, howitzers, trucks, missiles, and radars. Examples of exclusions from consideration were spare parts, all fixed-wing aircraft, and items with no open production line (52).

#### The SDAF In Operation

Once the decision has been made to procure items utilizing the SDAF, the DSAA authorizes the responsible military department to begin the procurement process. The DSAA issues a funded Military Interdepartmental Purchase Request (MIPR) to

the military service to begin the procurement process. These MIPRs are generally processed in accordance with the DOD Federal Acquisition Regulation (FAR) Supplement, Subpart 8.70, Coordinated Procurement. The individual agencies negotiate separate contracts for the procurement actions using a direct fund citation. If separate contracts are not possible, then the SDAF purchase is included as a separate contract line item (54:14-3).

The general guidance for financial management and administration of the fund are contained in the Foreign Military Sales Financial Management Manual, DOD 7290.3-M. Financial matters dealing with the SDAF accounting, payments, and billings are handled by the Security Assistance Accounting Center (SAAC). In his article about the SDAF, Mr. Tom Brozovich, a Systems Accountant assigned as the SAAC focal point for the SDAF at the time, presented an overview of SAAC involvement in the program. At the same time the DSAA issues the funded MIPR to the buying military department, they also issue a funding document to SAAC to transfer authorizations between accounts, establish accountability, and provide the fiscal authority for payment of SDAF obligations. Processing of payments from and reimbursements to the account are accomplished within SAAC. Close coordination is required between SAAC and the buying agencies to ensure the legitimacy of related SDAF payment schedules and drawdowns from the foreign countries' accounts in support of SDAF expenditures (1:23-24). In addition, SAAC is responsible for preparing a



report on SDAF past and current acquisitions which is provided to the DSAA and becomes part of the submission to Congress annually (54:14-8).

When the SDAF is authorized for use to support a request from a foreign government, that country may buy out the equity for items on contract prior to the time they are delivered to the military department. When this occurs, the foreign government is obtaining items in less than normal procurement lead time (54:14-2). With the advanced item identification and procurement, it is expected that the items will be sold prior to the actual delivery from production without the need to withdraw or divert the equipment from U.S. military forces. The foreign government needing the equipment will normally receive it in less than the standard procurement lead time which would be encountered during normal case processing. When a critical situation does occur where the foreign country is provided assets from U.S. stocks, then the lead time for payback to the U.S. stock should also be shorter than otherwise encountered when that procurement action has been initiated in advance on that particular equipment. This method reduces the readiness impact by making the item available in a shorter timeframe (46:48).

Table 2 shows examples of the reduced lead times as a result of advanced identification and procurement actions for the foreign countries requisitioning SDAF equipment which was either on contract allowing direct delivery to the country or delivered to the account and supplied from there. Lead times

Table 2

Item Lead Time Reductions for  
U.S. Paybacks and SDAF Allocations

<u>Nomenclature</u>	<u>Qty</u>	<u>Lead Time Saved and Recipient</u>	<u>Payback MILDEP</u>	<u>SDAF Allocation</u>
AN/TPS-70 Radar	1	3 plus years		Honduras
Maverick	120	Immediate delivery		Germany
M198 Howitzer	*	3 years after diversion to Somalia	Army	
M60A3 Tanks	54	3 years		Bahrain
PHALANX	6	1 plus years		UK
Tactical Radios	750	2 plus years		Thailand
	1,344	2 plus years		Honduras
STINGER	226	2 years		Turkey
TOW-2 Anti-Tank	558	2 years		Turkey
Guided Missile	1,350	2 years		Norway
TPQ-37 Radars	2	2 years		Israel
	2	2 years		China
5.56mm Ammo Rounds	27M	1 year after diversions to El Salvador and Honduras	Army	
	5M	Precluded withdrawal		Honduras
	5M	Precluded withdrawal		El Salvador
	550K	Precluded withdrawal		Costa Rica

\* Quantity not available.

(11;41:4;42:4)

are considered to be procurement lead times and include administrative as well as production lead times (12). The table also shows some of the U.S. Government paybacks for diversions from inventory to meet foreign needs. The column

entitled Payback MILDEP shows the military service paid back from the SDAF for items which were diverted by a U.S. military department to meet foreign needs. The SDAF Allocation column shows the foreign government supplied with SDAF items either on contract or already delivered. While this Table is by no means all inclusive, it is representative of the desired results in reducing lead times.

When a foreign customer requests price and availability (P&A) or planning and review (P&R) data on material which is on contract as SDAF purchases, requests are coordinated with the DSAA prior to completing the response to the foreign purchaser. At that time, the DSAA evaluates the request to determine whether to provide support from the SDAF items on contract or from SDAF inventories. The responsible military department is then notified of the decision and responds to the foreign customer with the requested data. As with other programs, the State Department must approve the sale in accordance with standard procedures. If Congressional notification is required for the sale, the State Department also approves this action under Sec 36(b) of the Arms Export Control Act (AECA). If the request is approved for purchase from the SDAF, the DSAA directs the appropriate military department to prepare an FMS case for the sale of the items (54:14-5).

As shown in the FY 1989 congressional presentation, sales agreements for SDAF items completed and in process for FY 1987 demonstrate the use of the SDAF in supporting U.S. foreign

policy objectives. Figure 1 shows a map of the critical areas impacted by the SDAF and provides examples of equipment provided to involved countries. Highlights regarding equipment delivered and in process are as follows.

Readiness and interoperability with NATO, Australia, and Japan have been sustained and improved by accelerating sales and deliveries of such items as TOW-2 anti-tank missiles, Multiple Launch Rocket Systems (MLRS), STINGER man-portable anti-aircraft missiles . . . Sidewinder air-to-air missiles, Maverick air-to-ground missiles, Super Rapid Blooming Offboard Chaff (SRBOC) rounds, tactical Army radios, Firefinder counterbattery radars, and 155mm artillery ammunition.

In the critical Southern Flank region of NATO, SDAF procurements and sales are helping to smooth forces modernization planning and accelerate deliveries of selected items.

While minimizing drawdowns of U.S. assets, the SDAF has been used to overcome severe backlogs of tactical radios (man-portable and vehicular) needed by allied and friendly governments, such as the Philippines, Malawi, Thailand, Morocco, Central America, Caribbean, West Africa, etc. In fact, DoD has had to direct only one diversion of manportable radios in the past few years and even that was followed up with an accelerated replenishment from SDAF assets.

SDAF buys of various types of ammunition ([from] rifles to howitzers), vehicles (jeeps and trucks), and light arms (rifles, machine guns, and mortars) have greatly reduced pressures on the Army to withdraw on-hand stocks for sustainment of the counter-insurgency and border safeguarding missions of friendly governments. Examples of these efforts for programs with the Philippines, Chad, Thailand, Morocco, Central America, Bolivia, Caribbean, and Somalia [49:638].

During the program start-up in FY 1982, no equipment or services were sold to foreign countries nor was U.S. defense production significantly altered by the SDAF acquisitions.

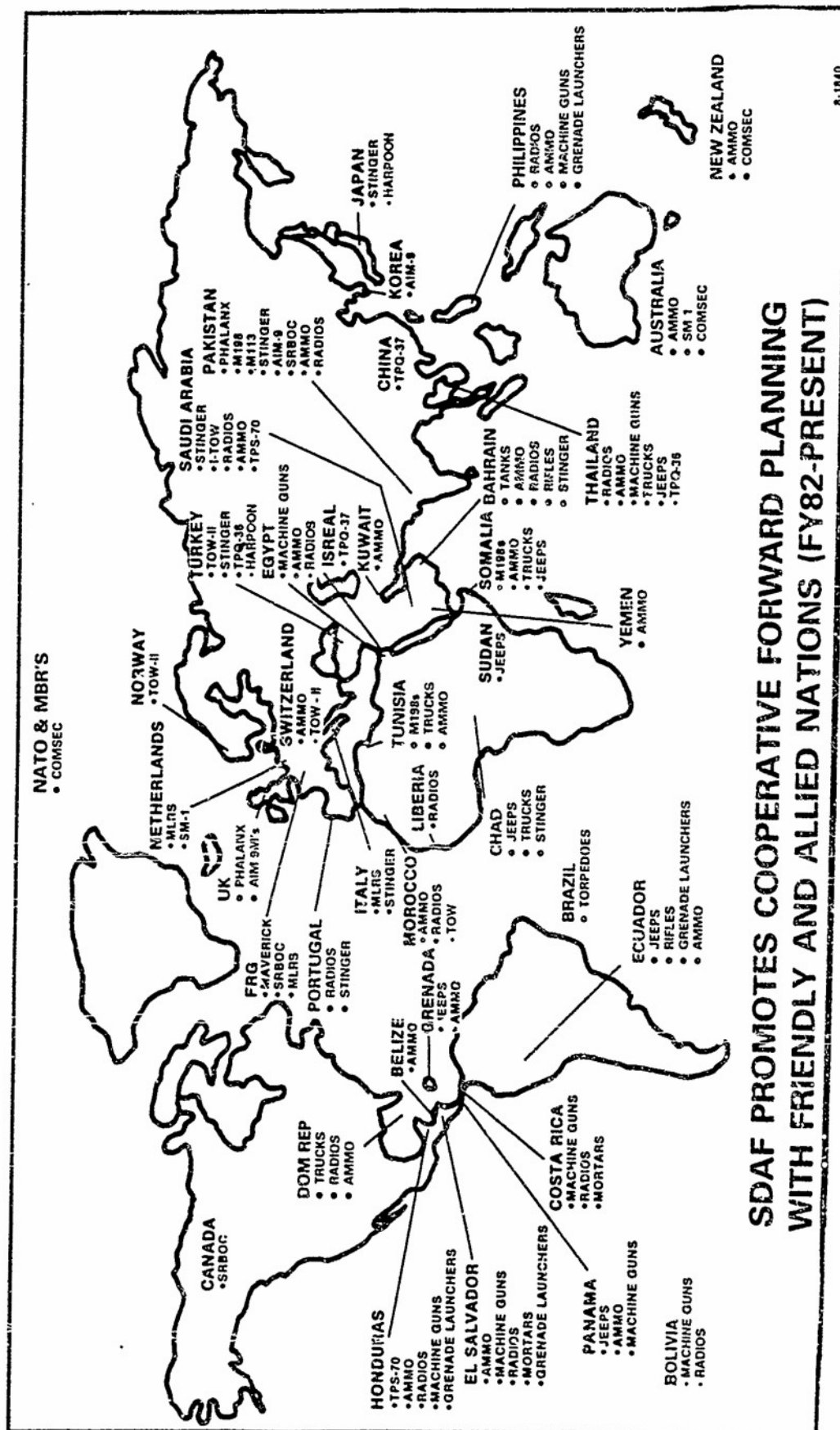


Figure 1. SDAF Impacts In Critical Areas (Map) (55)

However, the SDAF did provide for extension of the M60A3 production line for two months, an increase in I-TOW missile production, and establishment of favorable add-on contracts for the Maverick missile and TPS-70 radars (37:2).

Sales were limited as the program advanced during FY 1983. The items placed on contract in FY 1982 were still in the early production stages during FY 1983. However, 20 VRC-12 vehicle radios were sold to Spain providing an accelerated delivery, and negotiations were in various stages on four other sales in the first quarter of FY 1983. The enhancement in production began for several items. Some production lines were extended, higher production levels were attained, and favorable add-on contracts for current and planned production significantly enhanced production. Some examples of improved production volume which resulted in lower pricing included the radio, STINGER, and Howitzer procurements (38:2).

Throughout FYs 1984-1987, additional improvements in production were cited in the annual reports to Congress. These included higher production volumes in FY 1984 for radio, STINGER, CVC helmet, CBU-87, Jeep, and Howitzer procurements which resulted in much lower pricing. For FY 1985, examples cited included the Phalanx, Fire Finder Radar, Standard Missile, tactical radio, communications security equipment, MLRS, and TCW-2 missile procurements as enhancing production with resultant lower prices. Extending production lines, attaining higher levels of production, and negotiating

favorable add-on contracts for areas such as tactical trucks, counterbattery radars, man-portable anti-aircraft missiles, anti-tank missiles, tactical radios, communications security equipment, and torpedoes provided positive impacts with reduced prices during FY 1986. The improvements in production and resultant lower unit prices shown for FY 1987 are very similar to those already listed and further include the AIM-7 and AIM-9 air-to-air missiles (39:3;40:5;41:5;42:5).

#### Program Enhancements Requiring Legislative Change

A General Accounting Office audit of the SDAF, published in 1985, had been requested by the Chairman, Subcommittee on Foreign Operations, House Committee on Appropriations, to determine if the SDAF was meeting its objective of decreasing the delivery times for defense items to foreign purchasers and to identify any management and legislative policy issues that needed to be addressed. The study results concluded that it was too early at that time to determine whether the SDAF would accomplish its intended objectives. The study did, however, identify three legislative changes that could improve the fund's ability to function more effectively. These were to (1) grant a three-year obligation authority for better coordination with the military departments' procurement cycle; (2) allow the SDAF to obligate the proceeds from sales from the account in the year in which the sales were made rather than the following year when new authorization was received for greater latitude in meeting foreign requirements; (3)

allow the SDAF to buy equipment not already approved for foreign release to facilitate meeting foreign needs with authorized equipment and replacement with the advanced, nonreleasable equipment (59:1).

One-Year Obligation Authority. A limiting factor identified in the effectiveness of the SDAF operation has been the one-year obligation authority, which means that funds can only be obligated in the fiscal year in which they are appropriated. Supported by the 1985 General Accounting Office recommendation for three-year obligation authority following investigation of the fund, the Administration proposed extending the one-year obligation authority to three years in the FY 1986 budget presentation (11:3;46:48;59:1+). Rationale presented in the FY 1986 Congressional Presentation Document (CPD) for the change was to

. . . allow a closer synchronization of SDAF procurement planning with the budget and acquisition processes of the military departments, which already operate on a three year basis. This will blend SDAF procurements into the normal procurement and acquisition cycle, rather than compress them into a single year [46:48].

Because the necessity to obligate funds within the one-year timeframe, delays were often encountered in obligating the funds because of legal or negotiation problems encountered during the contracting phase which impacted utilizing the SDAF funds. Items often take over 12 months to place on contract from the time of initiation of the purchase request through the request for proposal, competitive bid, contract negotiation, and contractor certification, if required. If monies



were not obligated within the fiscal year authorized, then obligation authority was lost and the procurement plan cycles for those items had to be shifted to the following year (12). An example of one FY 1984 occurrence was provided by the GAO study in regards to a procurement for the Multiple Launch Rocket System (MLRS). After three months of trying to procure the system, DSAA learned that contract negotiation could not be finalized prior to the end of the fiscal year. This resulted in a \$23 million reprogramming effort to buy lower priority ammunition (59:3-4).

In the FY 1988 budget request, the administration again requested extension of the obligation authority. This request was to change obligation authority from one to two years. Because the SDAF obligation authority cycle of one year does not coincide with the U.S. military departments, which have three-year obligation authority, the presentation stated that contracting opportunities have been missed. When the obligation authority expires prior to obligating the funds, expiration may impact the military service procurement. Aggregated quantities may have been geared to a minimum buy or to take advantage of price breaks offered with the larger quantities (48:353-354).

The Senate Appropriations Committee (SAC) had recommended granting a two-year obligation authority in 1986, but the recommendation was not passed that year during the Appropriations Conference Committee. The recent FY 1988 proposal was also rejected (22:16). However, according to Mr.

Jack Mullins, DSAA, the three-year obligation authority issue was approved for FY 1989 and is currently in the House and Senate Foreign Affairs Bill for FY 1989 awaiting final vote. Thus, the recommended three-year obligation authority to enhance the management of the program should finally become law in FY 1989 (18).

Authority to Use Sales Proceeds. When SDAF sales are made, the inventory declines and sales proceeds are deposited to the account. When the SDAF authorized expenditures for the year have already been obligated, the DSAA must wait until the following year to obtain new authority via an appropriations act to use these sales proceeds. When sales do occur, the authority to use the sales proceeds prior to awaiting the next year's approval from the Congress would allow more rapid turnover of the SDAF assets and "possibly avoid losing opportunities to exercise open contract options that would expire before the end of the sales year" (59:4). Implementation of this approach would allow the SDAF to function more like the military departments to replenish their stocks on an immediate basis (59:4). The annual appropriation determines how much new equipment the SDAF can procure. This is limited to the difference between the on-hand plus on-order assets and the authorization ceiling. When the SDAF approaches the authorized level, then Congress may be asked to extend the level of capitalization to allow purchase of additional equipment. Authority to use sales proceeds would allow DSAA to obligate these funds rather than having to raise the

capitalization ceiling on the account. If sales are not made from the account, then funds would not be available for additional purchases. The GAO report further stated that

By making new purchases contingent on sales, Congress would be requiring DSAA to demonstrate that it has chosen items which are being sold to eligible foreign customers [59:4].

This item has not been included as a recommendation for change to the existing legislation. Rather, the Administration chose to request an increase in capitalization from \$900 million to \$1.5 billion. The increase proposed was to take the SDAF account to just over halfway to the \$2.8 billion capitalization level we had justified in our original proposal in 1981 (31:59). (Note: The original proposal presented in 1981 was for \$2.1 billion by FY 1987 (33:XII,156).) The increase requested to the capitalization level was to support the \$345 million program proposed for FY 1986 (31:59). The rationale for not presenting this issue for consideration as an enhancement to fund management may be inferred from the prepared statement provided in the hearings by the DSAA which narrated recommendations for legislative changes.

In the final GAO report there were several recommendations for changes to the existing legislation. We have selected part of them - not all - because we believe that development of the program should be evolutionary [31:59].

Even though this subject was not presented as an issue for legislative change, it was an item of discussion based on Committee questions raised regarding the GAO report and the objective of the fund as understood by the Congress.

Congressional understanding of the objective of the fund as originally established was that it would be replenished by sales of equipment from the fund if it were functioning the way it was intended. Another question focused on the GAO recommendation to allow DSAA to use sales proceeds rather than waiting for subsequent appropriation acts. This would make new purchases contingent on sales to foreign purchasers, requiring DSAA to demonstrate that the right items had been selected for procurement. According to the Committee, this was the original intent when it agreed to the establishment of the fund. Further, the Congress "intended that equipment would be turned over quickly, which would also serve to replenish the fund" (31:82).

In response to the questions asked by the Congress, it was explained that the sale of equipment was just one source for on-going capitalization, and DSAA had no intention of selling equipment "without cause" merely to accrue capital in the account (31:82). It was further explained that the cycle for equipment turnaround and sales was about four years. With the past FY 1984 sales and paybacks of \$56 million and based on the number of SDAF sales cases in process, reimbursements to the fund were expected to considerably exceed the FY 1984 sales. Additional comments were also provided relative to the GAO's recommendation. These comments explained that if the SDAF were allowed to operate as a revolving fund rather than limited to the funding provided through the Congressional appropriations acts, DOD could obtain additional lead time by

exercising contract options that might otherwise expire during the fiscal year that the sales proceeds were generated. The answer further stated that after the SDAF was fully capitalized, the fund should be selfsustaining (31:82).

Authority to Purchase Nonreleasable Systems. The third GAO program enhancement recommended for improved SDAF management flexibility was the authority to purchase systems not presently releasable to foreign governments. This procedure, also known as procurement for payback or replacement in kind, is designed to facilitate rapid payback of material to the supplying U.S. military department and, at the same time, to accommodate the sale of popular items to foreign customers. The intent of procurement for payback is to minimize or eliminate potential adverse readiness impacts on U.S. forces. The basic process is to allow procurement of advanced systems not yet approved for release to foreign governments. Utilizing this method, if a request were received from a foreign government and release had been approved subsequent to the SDAF procurement, the system would be supplied from the SDAF. If the advanced system had not been approved for release, then the releasable version would be supplied from U.S. stocks, and the advanced system would be transferred to replace the U.S. systems used to support the foreign country's request. If no foreign customer had been determined at the time the item was delivered, the older version would be taken from the military service and placed in the account and the

newer version would be supplied to the impacted service (11:4).

According to the GAO findings, the Arms Export Control Act limits the items bought by the SDAF to those which are anticipated to be sold to a foreign country. The GAO interpretation was that the SDAF could only purchase items releasable to a foreign government at the time the contract was awarded, and that releasability predications were speculative. This limited the SDAF to buy only those replacement-in-kind items which were releasable to a foreign purchaser at the time of the contract award. Several problems with this procedure were defined in the report. For example, when older versions of a system are bought and foreign buyers do not materialize, material may have to be sold to the military services even though a more advanced system is being used. The case of the AIM-9L and AIM-9M air-to-air missiles was discussed as a relevant example of the procedure. At that time, foreign requirements had to be filled from service assets because the current production line was for the AIM-9M, which was not a releasable version to foreign governments. Withdrawal of the AIM-9L missiles from inventory could impact U.S. readiness. However, the Arms Export Control Act prohibits the SDAF from buying the advanced version which would be sold back to the services to replenish their missile inventories when AIM-9Ls were provided to meet urgent foreign needs (59:5).

The procurement for payback initiative was presented for legislative change in the FY 1986 request. Using the GAO's recommendation as part of the supporting rationale, the proposal was presented for Congressional approval to meet foreign needs by withdrawing releasable equipment from inventory and replenishing military inventory with the advanced, nonreleasable versions procured with SDAF funds. According to the statement provided by General Gast before the Subcommittee on Arms Control, the DOD was using a procedure similar to the procurement for payback proposal at that time for foreign military sales, wherein the older version requested by the country was not released until the new item was delivered to the military service. General Gast further explained that the purpose of the legislative change was to provide earlier delivery to the foreign customer by funding the system's replacement with SDAF. Recognizing the concern that the DOD may be tempted to sell a more technologically sophisticated weapon than necessary, the reassurance was provided that the Defense Department was very protective of its technology and this procedure would only be used as an exception. However, he explained that in emergencies, higher technological items could still be provided to foreign governments when determined to be in national interest, causing the same dilemma of adverse readiness impacts to the U.S. forces by these types of diversions from inventory. The procurement for payback was expected to guard against these situations. The procurement limitations would most likely be

to limit procurement for payback to missile systems like the AIM-9M, TOW-II, and STINGER, where the version releasable to the foreign country is similar in cost and operational capability to the advanced, nonreleasable model (31:60-61). Even though this recommendation was supported by Congress' own audit agency, the Administration was not successful in obtaining approval for procurement for payback legislative change (23:28-29).

Inclusion of Secondary Supply Items. An item which was received favorably by the Congress was a new procedure to be used in meeting the demand for critical supply support items managed by the Defense Logistics Agency (DLA). This FY 1986 legislative proposal was to permit DLA, which operates as a revolving stock fund, to use the SDAF to support about \$50 million in unplanned foreign requirements. The DLA manages over 2.4 million of the 4.6 million different consumables and repair parts in the overall supply system, with foreign customers using about 2.1 million of the DLA-managed items (31:61). According to Mr. James, this procedure was presented for legislative change because including DLA items was

. . . outside the current bounds of the SDAF legislation because no payments for sales would be made into the SDAF account nor would identifiable items accrue to SDAF. After a one-time obligation of funds, no new obligation would be used, since DLA would turn over the receipts for replenishment [11:5].

Congress supported and approved the FY 1986 request to include DLA items. Further, no dollar ceiling was set on the amount of money which could be used for this purpose:



The Fund may be used to keep on continuous order such defense articles and defense services as are assigned by the Department of Defense for integrated management by a single agency thereof for the common use of all military departments in anticipation of the transfer of similar defense articles and defense services to foreign countries and international organizations pursuant to this Act, the Foreign Assistance Act of 1986, or other law [27:285].

This approval was implemented, and the SDAF invested \$50 million with the DLA in the 'Supply Support Procurement program' (49:42). The program provides the Defense Department with the ability to respond better to low intensity conflicts through the agency maintaining higher stock levels and lower assets for force readiness, which was not previously possible reorder points. This allows the U.S. to maintain critical military assets for force readiness, which was not previously possible (49:42).

#### Other Program Enhancements

Two management concepts have been implemented into the SDAF operations which did not require new legislation. These concepts are called production rescheduling and procurement of modified equipment.

Production Rescheduling. This procedure involves changing the delivery date for SDAF items on contract, which simply means that the SDAF items change places with other planned production. The presentation provided by Mr. Langley James provides for a basic understanding of the concept. An SDAF item is placed on order in year 1 for delivery in year 3. In year 2, another FMS contract or U.S. military force

contract is let for the same item to be delivered for that contract in year 4. If the SDAF item is ready for delivery at year 3, there has been no allocation from the SDAF, and there are still foreseeable requirements for to buy the item from the SDAF, then the contract may be amended to support the FMS case or U.S. requirement placed on contract in year 2. This rescheduling allows earlier support for the FMS customer or U.S. forces and reschedules the projected SDAF delivery. Since FMS demands do not always match the SDAF cycles, this procedure provides the flexibility to meet the SDAF objectives 'of procuring lead time rather than inventories, smoothing production rates, and providing more rapid delivery to the FMS customer . . .' (11:5). At the same time, the rescheduling technique can reduce production and storage costs. This kind of action will only be accomplished, however, when an audit trail can be established to maintain accountability and protect the integrity of the SDAF (11:5;18).

Procurement of Modified Equipment. This procedure involves the SDAF buying models of U.S. military equipment which have been adapted for export and is considered to be within the current authority of the law. These modified items may be older versions of equipment updated for export, or they may be technologically-advanced U.S. systems which are modified for export to protect U.S. technology against 'premature or unnecessary release' (11:6). While the SDAF does not pay for research and development projects and does not specifically pay for design of export versions of equip-

ment, it will support some cases of adaptation to ensure systems are releasable and available for export to meet anticipated foreign requirements. The key in this kind of effort is that the modification must be equally usable by U.S. forces. During mobilization, for example, U.S. forces must be able use the equipment as modified or change it back into the standard U.S. military configuration (11:6;18).

#### Where the Money and Support Are Applied

Based on items identified and approved for SDAF procurement, funds are allocated to the military activity responsible for buying the assets. Figures 1 and 2 show how the account funds have been allocated among the military departments and respective allocations percentages for SDAF procurements from FY 1982 through FY 1987. Of the \$1,236.1 million, the Army has bought \$847.5 million in items, the Navy has spent \$279.4 million, and the Air Force, NSA, and DLA have each bought SDAF support items in the \$50-million range. While these numbers reflect cumulative participation in the program, funds were not allocated on a "set pro rata distribution spread" among the military departments and DOD agencies. Rather, procurements were based on evaluation and selection of the candidate items. It should also be noted that services perform common buys for requirements in support of other military departments and agencies. The Army buys common-support items like STINGERS, TCWs, Howitzers, radios, vehicles, and ammunition. The DLA common items include articles like general supplies, clothing

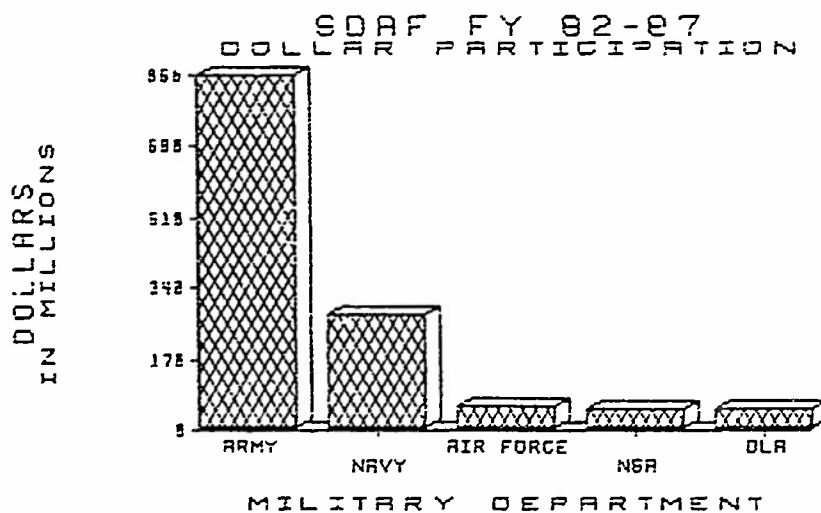


Figure 2. Military Department Participation Through FY 1987 by Total Dollars (57)

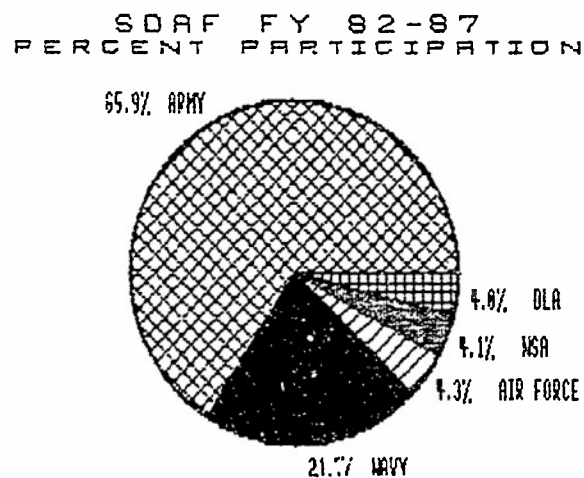


Figure 3. Military Department Participation Through FY 1987 by Percentage of Total Dollars (57)

and textiles, medical equipment, general industrial supplies, and electronics. Navy-common items include Sidewinder and Sparrow Missiles. The National Security Agency is responsible for procurements of communications security equipment (57).

With only 4.3 percent of the total program through FY 1987, the Air Force Logistics Command has been concerned that the Air Force was not "getting a fair shake" in using the SDAF to buy key F-16 "showstoppers," such as engines, modules, and fuel controls, "which meet all the SDAF requirements" (15). In a letter from Lieutenant General Charles McCausland, AFLC/CV, to Lieutenant General Charles C. McDonald, HQ USAF/LE, this issue was presented as a concern about not taking advantage of the opportunities the SDAF could provide with advance procurement of key items. Even though the items met all the criteria for SDAF procurement, the DSAA had not considered them as "viable candidates for purchase by the SDAF" (15). Further cited was the DSAA preference to buy complete end items and to avoid follow-on spares purchases (15). The DSAA preference for buying stand alone end items as opposed to spares purchases appears to be based on several factors. Maintaining accountability and control of the assets throughout the logistical processes is difficult with secondary items and spare parts (13;25;60:3).

As far as the Air Force involvement with the SDAF is concerned, Mr. Thomas E. McIntire, SAF/AAC, believes that the program implementation through use of MIPRs is the biggest problem with the SDAF.

The perception of managers at all levels is that by this treatment [implementation with MIPRs], Air Force is basically not involved, since all normal program and financial reporting is circumvented. For this reason, Air Force support for the program is automatically handicapped and can only be aided by manual monitoring or specific changes to automated systems to include a program whose resources are the responsibility of an outside agency [17:3].

In addition, there is no capability for the SDAF to maintain accurate data on design changes. Political reasons have also entered into the decision not to buy spare F-16 engines with SDAF funds. Apparently, the DSAA did propose procurement of F-16 engines several years ago. However, Congressmen representing districts involved in producing the F-18 and F-20 took exception with the recommendation as providing an 'unfair advantage to the F-16 in the international marketplace' (25).

The Air Force has been successful in buying Air Force managed munitions items. The FY 1988 SDAF procurement plan did include a projection to buy Maverick Missiles and associated equipment, which would have increased the Air Force percent of participation to approximately 10 percent of the total program participation (25). This plan to buy 500 missiles at a projected total of \$66.32 million was based on the Administration's requested \$325 million obligation authority for FY 1988, however, was one of the programs subsequently cancelled as a result of the approved Congressional lower-level authorization (55).

Table 3 shows what has been bought by the SDAF from FY 1982 through FY 1987. It is set up to show the general category and specific data where applicable. It also provides

the numbers of items procured, except for the long lead support and low intensity conflict procurement support which shows total dollars expended.

Table 3

Special Defense Acquisition Fund - What SDAF Buys

Main Battle Tanks	54	Communications	
Armored Personnel Carriers	75	- COMSEC	9,554
Laser Designators	20	- MANPACK	12,210
Missile/Munitions		- Vehicle	5,065
- TOWs	9,230	Vehicles	
- Stingers	3,211	- 5-Ton Trucks	91
- MLRS Rockets	360	- 2-1/2-Ton Trucks	350
- Sidewinders	1,000	- 1/4-Ton Trucks ("Jeeps")	621
- Sparrows	600	Small Arms	
- Mavericks	120	- Machine Guns	3,800
- Standards	60	- Mortars	200
- Harpoons	32	- Grenade Launchers	2,500
- Torpedoes	100	- Rifles	10,000
- Cluster Bombs	150	Ammunition	
Artillery/Guns		- "Copperhead"	300
- Towed Howitzers	137	- Artillery	135K
- Multiple Launcher Rocket Systems	15	- Tank 24K	
- Phalanx CIWS	16	- Mortar/Grenade	92K
- 30mm Gunpods	10	- Grenade	651K
Tactical Radars		- MG/Rifle	219M
- Air Defense	2	- SRBOC Chaff	3K
- Artillery Counter-battery	12	Long Lead Support (All Services)	\$48M
- Mortar Counterbattery	12	Low Intensity Conflict (LIC)	\$51M

(55;57)

Equipment Allocations to Foreign Customers

The general screening of requests and allocation of SDAF assets are handled on a first-come, first-served basis using the best information available to ensure the SDAF-developed objectives are met. When more than one request is received at

the same time for the same items, other factors are considered in determining whether to support the request from the SDAF such as the urgency of the requirement, the country's financial position, and politico-military issues at the time (51).

Determinations to supply SDAF equipment to meet foreign countries' needs are made based on the United States' vested interests in the particular countries at the time. Some of the considerations taken into account are U.S. base rights privileges with countries like Turkey, Greece, Portugal, and Spain; certain 'hot spots' around the globe such as the current South American environment including El Salvador and Honduras; maintenance of standard NATO interoperability on particular weapon systems with countries like Italy, the Netherlands, and Germany; and combating drug traffic in areas like Central America. Consideration is also given to meeting urgent needs in countries like the Philippines, where internal dissent is an issue. For example, radios may be critically needed to enable the officers trying to maintain civil control to communicate with the commanders for instructions (18).

As the SDAF has progressed over time, certain countries have emerged and are watched as key areas for supporting their requirements with SDAF assets. Generally, the MAP and some FMS credit countries tend to take precedence over the FMS cash buyers when an evaluation shows that similar interests are involved (51).



. . . our primary tracking attention is on: Turkey, Portugal, Thailand, Philippines, Chad, Tunisia, Morocco, Malawi, and Central America. Pakistan, Jordan, the Caribbean, and East Africa are viewed as the 'next tier' of priorities [51].

When there is a pattern of use for certain items involving available in the SDAF account for the countries identified above, equipment in the SDAF is not depleted in support of other FMS cash or FMS credit countries. Rather, when this may occur, all regions are informally surveyed for potential equipment needs by those countries previously mentioned. In addition, other critical areas which may be surfacing are evaluated for equipment needs (51).

Table 4 shows examples of the significant direct sales agreements with foreign countries as well as paybacks to the military services for diversions or withdrawals to meet foreign needs provided in the annual reports to Congress. As the information found on sales to foreign countries are numerous, only those items with direct sales values over \$600 thousand have been included in the table. Less published information was available about the military department replacements as paybacks for withdrawals from stock or diversions from production; therefore, all appropriate data found in the literature reviewed for military replacements has been included. Sales and replacements were accomplished in less than normal delivery leadtimes.

Other examples of items provided in the DSAA annual report to the Congress to support critical foreign needs which did not have large dollar sales but were possibly of equal or

Table 4

Foreign Customer Direct Sales  
and Military Department Replacements

(\$ In Thousands)

Direct Sales:

<u>FY</u>	<u>Item Nomenclature</u>	<u>Quantity</u>	<u>SDAF \$ Value</u>
84	AN/PRC-77 Radios	825	800
84	PHALANX, MK-15 CIWS with support	4	13,227
84	M203 Prop Charge for 155mm	3,300	698
84	I-TOW Missile	1,200	6,494
84	M198 Howitzer with support	6	2,248
84	M107 Projectile, HE, for 155mm	7,500	984
84	Communications Security Equip	-	1,374
85	Maverick Missiles	120	6,075
85	STINGER Missiles	82	4,731
85	TOW-2 Missiles	723	5,426
85	M198 Howitzer	12	4,502
85	M60 Machine Guns	318	796
85	AN/PRC-77 Radio	857	865
85	AN/VRC-12	106	974
85	Jeep 1/4 Ton	75	1,106
85	Communications Security Equip	-	1,895
85	Chaff Rounds	3,000	3,014
85	155MM Ammunition	-	6,568
85	5.56MM Ammunition	-	732
86	M60A3 Tanks w/support	54	76,000
86	PHALANX	6	27,000
86	STINGER, TOW-2, Communications Equip	-	17,000
87	M198 Howitzer w/54 Trucks and support	57	31,800
87	MLRS	9	38,000
87	TOW-2 Missiles and TPQ-36 Radars	-	24,800
87	TPQ-37 Radars with support	4	38,000
87	AIM-9M	183	11,100

Replacements for Withdrawals/Diversions:

84	5.56mm Rifle Ammunition (Army)	6.5M	1,209
84	STINGER Missile Systems (Army)	400	28,600
85	M60 Machine Gun	66	186
85	AN/VRC-12 Radio	41	206
85	Jeeps 1/4 Ton	19	298
85	155MM Ammunition	-	1,200
86	AIM-9 Missiles (Air Force/Navy)	175	7,900
86	STINGER with support (Army)	60	5,800

(39:4;40:4;41:4;42:4)

greater importance' to support the United States' friends and allies facing various degrees of low-intensity conflicts were addressed in the FY 1987 annual report. Some of the examples provided included ammunition and tactical radios to the Philippines; jeeps and cargo trucks to Chad; and ammunition, machine guns, radios, and grenade launchers to El Salvador (42:4).

#### Evaluation of Controls and Procedures

An Inspector General (IG) financial and compliance audit was conducted of the SDAF from March to August 1986 in accordance with generally accepted government auditing standards to evaluate the controls over the appropriated funds and assets. This audit also included an evaluation of the pricing and billing procedures for material delivered from the fund and items procured by the fund to determine if the SDAF objectives were being met.

The audit reconciled the SDAF program disbursements from the program's inception through March 1986. As of February 1986, 407 procurement actions had been initiated for material and services valued at \$787 million. As of the March 1986 timeframe, \$1 billion had been obligated for procurement of material and services, and 105 sales agreements totalling \$233 million had been made.

The audit showed that obligation and disbursement controls over the funds were adequate and actions had been taken during the time of the audit to improve controls over

assets. However, the management of the fund needed improving. Proper customer billing and reporting procedures were not provided, and all costs were not being recouped. In addition, the audit found that even though some of the procurements did not meet all criteria for procurement which had been established, "the purchases met the overall objectives of the Fund" (60:1).

The general policy for storage of SDAF major equipment items requires that inventories should normally be segregated from other DOD inventories. An exception to the general policy applies to items with limited shelf lives, which may be commingled as long as separate and accurate accountability records are maintained (54:14-5). As a matter of interest, the audit noted that the SDAF had bought \$19 million of secondary and spare parts from the military departments. Because the inventory control points had difficulty accounting for the SDAF inventory, which was commingled with their assets, the DSAA had decided to buy these kinds of items selectively and "only when absolutely necessary" (60:3).

The audit further identified inadequate cost accounting procedures and controls. Of the 106 sales cases with a selling price of \$233 million, incurred costs were unknown. Actual or estimated cost of performance for billings of \$203 million were not supported. In addition, no costs for military labor and civilian retirement had been charged to the fund. There was no established requirement for other unfunded costs like depreciation, asset use, and interest on investment

to be accumulated, reported, and charged to the foreign customer at the time of the sale which had resulted in at least \$4.9 million of the \$233 million in sales not being properly charged or identified for future customer billings. Further, the audit results identified around \$47 million in material purchases which could not be readily used by the military departments and was possibly not saleable to foreign customers. Even though the items were within the overall objectives of the SDAF procurement criteria, procedures had not been established to recover the costs for material which was not ultimately sold to either a foreign customer or the military forces (60:i+).

Items identified by the audit as having no U.S. requirements totalled about \$39 million and included the Sidewinder Missile, Harpoon Missile, MK-46 Torpedo, and the TPS-70 Radar. Engineering programs to facilitate the production of the Harpoon Missile (\$7 million) and the MK-46 Torpedo (\$8.7 million) required expenditure of \$15.7 million from the fund. The \$14 million identified for the Sidewinder Missile was to test a modified version. The TPS-70 Radar, \$9.3 million, is a modified version of the TPS-43 Radar which was used by the Air Force. Two of these were purchased in FY 1983 for a resultant favorable price for a foreign customer and anticipated sales. Only one radar had been sold as of the March 1986 evaluation (60:15-16). The remaining TPS-70 Radar has not been sold. However, there is currently an anticipated customer for the radar (20).

According to the audit, the procurement of the GPU-5A Gun Pods for approximately \$7.3 million met the criteria for purchase as the items were in short supply in the military inventory and did have U.S. requirements. However, the desirability of the item changed after procurement action. Apparently the U.S. forces no longer had a need, as the items had not been sold as of the audit. While the procurement did comply with the criteria for selecting items, the DSAA had no procedures to recoup the monies for the material not sold. Lack of adequate recoupment procedures could erode the SDAF purchasing power and degrade the ability to accomplish objectives (60:16,22). According to the summary of SDAF unreserved assets for the second quarter of FY 1988, the assets are still on hand in the account (53).

In response to the IG recommendation that DSAA establish procedures to recoup money from material which could not be sold and excess material, the DSAA concurred in part and agreed in total on the basis that lack of military use was because of lack of funds availability to enable the military departments to procure the assets from the account rather than a lack of utility. The DSAA agreed that maintaining the purchasing power was paramount for wise management in light of the possibility of potential equipment obsolescence and changes in market conditions. Further, published procedures to accommodate this recommendation were to become effective beginning in FY 1988 (60:22).

### Other Congressional Concerns

Additional concerns about the SDAF have been expressed in the congressional hearings and limitations further stipulated as to what the fund was intended to do. During the FY 1983 hearings, the issue of buying aircraft for export purposes utilizing the SDAF was discussed. While the administration's proposal had contained no specific legislative proposal for procurement of an export fighter aircraft, Chairman Zablocki brought up the issue based on other testimony presented on the supplemental. His concerns were aptly stated in the record.

Now, the Chair had certain reservations in establishing the Special Defense Acquisition Fund. I was concerned that there was a potential for abuse, and lo and behold, not even a year goes by and they are going to use it for the procurement of the F-X which is totally contrary to congressional assurances [34:129].

Although no decision had been made to use the SDAF, the DOD was considering the possibility based on the pressure to sell F-16s from the U.S. inventory and as a means of avoiding that situation. The Congress, however, was against supporting initial procurement of an export fighter which was not in the U.S. inventory utilizing the SDAF. This limitation was added to the bill with a unanimous vote (34:128-131).

Another stated restriction on use of the SDAF was generated from the Senate Committee on Appropriations as a result of the FY 1988 hearings. The Committee emphasized that it intended to preserve the original purpose of the SDAF. Clarification of this intent was provided in the following comments.

. . . the Committee will not support any proposal to expand the existing authority to use SDAF for other purposes. The Committee most emphatically will not support the creation of a special Presidential drawdown authority for SDAF [38:227].

#### SDAF Financial Status

Table 5 represents the overall financial status for the SDAF for FYs 1982 through 1987. Since this table is as of 30 September 1986, it does not reflect the most recent statistics regarding the status of the fund by individual category. This kind of updated information was not available to the researcher at the time of this analysis (18). The table does, however, provide an idea of how the SDAF has grown through the first several years of the program and what has happened within the various categories. Financial status with additional details regarding obligations and sales covered throughout this narrative will and addressed in Chapter IV. The results are presented in Table 5 by program year except as noted in the Table by fiscal year. According to the information, no sales were made during FYs 1982 and 1983. This was the start-up time for the program for item procurements. FY 1987 programs were to be placed on contract between January and September of that fiscal year. Only items on contract can be offered for sale. Therefore, data is only included for the FY 1987 authorized capitalization and obligation levels (50). The authorized obligation level by Congress represents one-year obligation authority.



Table 5

## SDAF Financial Status, FYs 1982-1987

(As of 30 September 1986)

(\$ In Millions)

	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>TOTAL</u>
Authorized Increment of Capitalization	300	300	300	000	100	70	1,070
Authorized Obligation Level by Congress	125	125	225	325	311	315	--
Obligations by SDAF on Contract	97	115	204	295	289	--	1,000
Management Reserve	28	10	19	23	21	--	--
Disbursements by SDAF Against Contracts	97	105	133	93	8	--	436
Allocated/Earmarked for Countries/ Replenishments	6	33	132	163	6	--	340
Value of SDAF Sales (LOAs and Replenish- ments Signed)	91	92	63	60	0	--	306
Collected Into SDAF (Against LOAs and Replenishments)	72	92	49	29	0	--	242
Values of SDAF Sales (LOAs and Replenish- ments Signed) by Fiscal Year	0	0	32	56	218	--	306
Collected Into SDAF (Against LOAs and Replenishments) by Fiscal Year	0	0	0	85	157	--	242
Number of FMS Cases, LOAs, and Replenishments by Fiscal Year	0	0	9	73	155	--	237

(50)

Additional information found for obligations and sales through FY 1988 shows an increase in the FY 1986 sales from \$218 million as shown in Table 5 to \$247 million. During FY 1987, obligations were shown at \$283 million and sales were at \$198 million. Projections for the FY 1988 timeframe including \$236 million in obligations and \$200 million in sales (56).

#### Chapter Summary

This chapter presented an overview of the historical background which led to the creation of the Special Defense Acquisition Fund. It further presented discussions on the SDAF purpose and objectives, criteria for identifying and selecting candidates for procurement action, and account funding and capitalization. The SDAF operation was also explained from the point of the decision to buy an item utilizing the SDAF through the allocation of assets to meet foreign requirements. Included in this discussion were highlights of current sales efforts supporting the objectives of the fund. Program limitations to effective SDAF management were identified and actions initiated to either enact legislative change or implement improvements for better management were addressed. A section was also provided showing where the SDAF money has been spent and what items have been procured and allocated. Additionally, a discussion was presented to address the adequacy of account controls and procedures. Congressional concerns regarding the intent of the SDAF which were not addressed in other segments of this

chapter were also presented. As a final point of discussion, a section was presented which showed financial information about the fund from FYs 1982 through 1987.

The available literature provided excellent background on why and how the SDAF was created. Additional clarification was provided through interviews and presented to provide as complete a picture as possible about the SDAF. The intent of the SDAF is well documented in making it a useful foreign policy tool. The next step in this research was to determine if the SDAF had accomplished the intent for which it was created. This is presented in Chapter IV, Analysis and Findings, which will provide an analysis of the literature and will include extensive support from personal and telephone interviews. The methodology used in this research effort is explained in Chapter III, which follows.

### III. Research Methodology

#### Methodology Overview

This thesis addresses the research question through a review of the available literature and by the use of personal interviews. While the literature review was considered to be a valuable source for obtaining the information desired to answer the research question, much of the existing knowledge in the area was not in written form. Therefore, additional information was sought from people experienced in this field (7:63).

The first step in the analysis, the literature review, was accomplished to obtain any available background to aid in answering the investigative questions. This included a review of legislation and congressional hearings, regulations, available Government Accounting Office (GAO) and Inspector General (IG) audit reports, articles written for publications, unpublished information papers, and general correspondence pertaining to the subject. Where the literature was vague or gaps were found, clarification was sought from the program experts to ensure as complete a picture as possible could be presented to show historical occurrences leading to the development of the SDAF and SDAF operation since its inception.

The technique used to obtain information from the experts in the field was the personal interview. According to Captain Carl Davis, Research Methods Professor, AFIT/LSR, this

kind of interview works well when there are small, specific groups of people as was the case with this analysis. In addition, the number of questions was not particularly large which made the advantage provided with this particular technique appealing (5). Due to the nature of this thesis, it was vital to be able to probe for additional detail and information to glean as much history and provide as much clarification about program development and operation as possible. The personal interview lends itself to this kind of technique. Another advantage noted in this kind of interview was that clarification was provided at the time of the interview, thus reducing the chance for the introduction of bias into the responses. Probably the greatest advantage, however, was the moderate cost associated with this procedure. Most interviews were conducted via telephone, which saved considerably on travel and associated costs (7:164,169).

Personal interviews were conducted with people actively involved in the management, administration, and operation of the SDAF program to obtain history, background, and details not found during the literature review. A preliminary review indicated that only a small number of people were knowledgeable about the history and background of the SDAF and how it is supposed to operate. Of these, three were identified for interview.

Langley B. James, GM-15, Former Deputy Chief, SDAF  
Division Defense Security Assistance Agency/Plans-SDAF

Jack Mullins, GM-15, Deputy Chief, SDAF Division,  
Defense Security Assistance Agency/Plans-SDAF

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Mr. James and Mr. Mullins are considered program experts and have worked with the SDAF at the Defense Security Assistance Agency (DSAA), Washington DC. Dr. Samelson has been involved with the SDAF academically as a researcher and is also an instructor at the Defense Institute of Security Assistance Management (DISAM), Wright-Patterson AFB, Ohio. The DSAA is the central point within the DOD for all security assistance management, which includes the SDAF program. The individuals selected for interview from the DSAA have been involved with the SDAF since its inception. The previous SDAF program manager, Mr. James, had extensive involvement with the fund since it was first introduced, and his knowledge and background were considered vital to this research effort. Mr. Mullins is the current SDAF program manager and has also been involved in the SDAF operation since its inception. His experience and expertise were sought to provide additional historical information as well as current status, policies, and procedures involving the fund. Dr. Samelson, DISAM, specializes in security assistance policy concerns, including legislative analysis. Other knowledgeable individuals identified as a result of these interviews were also interviewed. A complete list of interview participants appears at Appendix B.

Following the interviews to obtain historical background about the formulation and operation of the SDAF, more specific detail was needed to evaluate the actual program operation and performance. Therefore, interviews were conducted with policy and procedures personnel, system program managers, and inventory management specialists who are actually involved in buying, storing, and distributing the SDAF material. While there are many managers throughout the DOD involved in the logistical processes for the SDAF material, only 11 people were interviewed to determine the specific operations of the SDAF. It was believed prior to the interviews and confirmed during the interview process that this size sample should provide sufficient information, and additional interviews would become duplicative after that time. If this had not been the case, however, additional people would have been identified and more interviews would have been conducted until the interviewer was satisfied that data was adequate to answer the research question. Purposive judgement sampling was used to select the people to be interviewed. Use of this sampling technique allowed the interviewer to select the specific interviewees based on their experience with managing SDAF material. This method helped ensure that only knowledgeable individuals who were willing to participate in the interview process were selected (6:280).

In order to provide structure to the interview process to ensure that each of the investigative questions was thoroughly addressed, an interview guide was developed for this research

and administered to eight of the interview participants. It included an introductory letter and questions and appears at Appendix A. The introductory letter explained the research, explained the importance of the interviewee's participation, and provided assurance of anonymity if desired. The interview questions provided starting points for discussions and were consistent with the investigative questions and the information desired. As such, it was expected that these questions would lead to other additional questions and discussion as part of the desired probing technique. Each interviewee was contacted by telephone, the intent of the research was explained, and then each interviewee was provided with a copy of the introductory letter and the guide in advance of the interview. After the interviewee's receipt of the guide, another telephone call was made to establish a convenient time for interview. Utilizing this approach, the interviewer expected to generate less anxiety for the interviewee and stimulate more prepared, better discussions. In addition to the responses provided by the interviewees to the interview questions, the interviewer was also able to obtain additional supporting literature as a result of the interviews which otherwise may have been unavailable.

#### Answering the Investigative Questions

In order to answer the investigative questions which were identified in Chapter I, specific answers were sought through the literature review and personal interviews. A discussion



about the areas investigated is presented below with the sources for expected answers to the investigative questions. The questions used during the interview are contained within the interview guide which appears at Appendix A.

The literature review provided the general information about the procedures for identifying, buying, controlling, and distributing the SDAF items which addressed investigative questions 1 and 3. Since the researcher wanted to determine if this general guidance was the same at all levels within the program operation, if expanded logistical-process guidance was available, and how it was actually working, specific information was sought through interviews with those individuals involved in the actual program operation. In the case of investigative question 3, how the items are controlled, two factors were considered significant. The first was whether there were effective material accountability controls for items delivered to the military departments where direct shipment to an FMS recipient had not already been identified. The second was to determine how the asset loans from the SDAF to the military departments were accomplished and how often this procedure occurred. Questions 1, 2, 3, 4, and 5 of the interview guide were asked to obtain this specific data.

While the literature review appeared to adequately address investigative question 2 regarding what items had been purchased for the SDAF, the researcher wanted to determine the relationship between what items were identified by the military departments as candidates for procurement and what

had actually been bought. This information was obtained during the interview process through discussing interview question 1, how SDAF items are identified, and additional discussions which generated from asking other interview questions.

Since resources must be available in order to accomplish program goals, the answer to the investigative question regarding adequacy of funding was pursued. This information was obtained by researching the literature and by asking the interviewees involved in the overall operation of the fund. It was also expected that this issue would surface as a discussion item during interviews conducted with those people involved in the daily operations and via question 5, recommended program improvements. It naturally follows that in order to address the overall effectiveness of the program, information must be obtained regarding not only how much money has been authorized, but how much money has been obligated in support of procurements. The answer to additional funding issues were also sought through analysis of the statistics available in the literature.

Likewise, if funds are available and material is procured but not sold, then the program goals are not being accomplished. Thus, the answer was sought to investigative question 5, whether or not the foreign governments have requisitioned the SDAF items. Answers to this question were not only found in the available literature, but were obtained through interview questions 2, 8, and 9. These questions

generated discussions on what items had been purchased, item turnover rates, and dollars expended and recouped by the fund. A natural follow-on to the interview discussions regarding the area of requisitioning was what happens to items that are not requisitioned by foreign countries and cannot be used by the military forces. Both areas were considered in evaluation of this issue.

Foreign country requisitioning of items was coupled with the next investigative question, number 6, primary program objective, which pertains to the reduction of lead times for foreign countries resulting from the use of the SDAF. Lead time reductions were cited as a major SDAF objective. Thus, this investigative question was answered through both the literature and by interviewee perceptions and responses to question 6 of the interview guide to aid in determination of program effectiveness.

An additional benefit identified in the literature with utilizing the SDAF was cost reductions as a result of consolidated procurements. Pursuant to answering investigative question number 7, whether savings were realized and how much savings could be attributed to the SDAF program, interview respondents were asked to identify examples of procurements where this occurred and how much savings were realized. Interview question number 10 was used to obtain this information.

The historical information documents drawdowns and diversions of critical U.S. military equipment in support of

foreign governments, which led to the establishment of the SDAF with the three objectives identified as (1) enhancing the President's ability to respond to urgent needs while minimizing impacts on U.S. readiness, (2) smoothing the fluctuations in production for improved efficiency, and (3) reducing lead times for providing material to allies or paybacks to U.S. forces. To aid in evaluation of the overall impact of the program, answers to investigative questions 8, 9, and 10 were necessary. Interview question number 11 was asked to determine if any critical drawdowns had been experienced since the SDAF was implemented in order to answer investigative question number 8. Investigative questions 9 and 10 dealt with the importance of the program objectives, the success of the objectives, and if the SDAF had improved the U.S. readiness posture. In order to obtain the desired information, interviewees were asked to rank the three SDAF objectives identified in the literature in their order of importance and to evaluate the program success in accomplishing the objectives. Additionally, interviewees were asked if the program had improved the readiness of the forces. To obtain the answers to these issues, interviewees were asked to respond with their opinions to question numbers 11, 12, 13, and 14.

Besides the specific interview questions asked the interviewees, a general question regarding recommended improvements to the program operation was asked. The purpose of this question, number 15, was to determine if there was a

difference between the recommendations for program improvements or problems identified in the literature and those perceived at the operational levels. In addition, this question was asked to obtain individual perceptions about the SDAF operation and to determine if there may be isolated problem areas or if recommendations were uniform among the respondents surveyed.

Following the literature review and personal interviews, data and information obtained was qualitatively analyzed, evaluated, and presented to answer each of the investigative questions and the overall research question. The remaining thesis chapters, the data analysis and the conclusion, will present an evaluation of the information found to answer the overall research question and provide conclusions and recommendations identified as a result of this research effort.

#### IV. Analysis and Findings

The literature review provided ample historical and supporting data to determine the reasons for and the intent of the SDAF. As stipulated in the literature review, the intent of the SDAF is to reduce lead times for material in support of urgent foreign requirements while minimizing adverse readiness impacts on the United States forces. The purpose of this analysis now is to evaluate the SDAF based on the intent for which it was established to determine if it is accomplishing its objectives. In order to complete the analysis for this research topic, findings will be described pursuant to addressing each of the investigative questions identified to answer the research question.

##### Analysis of the Investigative Questions

Procedures for Identifying, Buying, and Distributing the SDAF Items. The SDAF program procedures are located in The Security Assistance Management Manual, DOD 5105.28-M, and financial procedures are located in the Foreign Military Sales Financial Management Manual, DOD 7290.3-M. However, these procedures are very general in nature. The Army has an additional regulation, AR 12-8, which provides more specific guidance and detail to managers about MIPR preparation and processing. Each of the Army interviewees mentioned both DOD and Army regulations as providing guidance and criteria for identifying, buying, and distributing the SDAF material. The Air Force interviewees, with one exception, were in agreement

with the other interviewees that the procedures were available in the Security Assistance Management Manual, but stated that these procedures were vague and no internal agency regulations were available to provide required clarification or additional guidance. One interviewee stated that AFRs 130-1, Chapter 14, and 170-3, Chapters 2 and 5, contained the implementing program and financial guidance (17). When identifying candidates for procurement, the criteria for selecting items was also provided via the DSAA annual requests which generally contained the same criteria as the DOD 5105.28-M. Four of the interviewees who were directly involved in the logistical support for managing the items felt that more definite guidelines, additional clarification, and directives needed to be provided to enable better identification of the right items for procurement and believed that feedback needed to be provided about the items selected and reasons for non selection of other items. In addition, some interviewees felt that reporting procedures were cumbersome and reporting was not needed on as frequent a basis for those services with relatively slow-moving items.

As a result of the interviews, the following detail was obtained to show the chain of events in the annual submission process. Each year the military departments are tasked to prepare a list of items which are good candidates for FMS sales. A dollar limitation is provided on the number of candidates which may be submitted. The headquarters sends the tasking to the appropriate commands to obtain input for the

candidate submission. The command focal point for the SDAF further disseminates requests to project officers, system program managers, and inventory management specialists to obtain the requested information. The commands evaluate items based on previous sales and anticipated future sales, evaluating what systems are selling. Included in the evaluation are item historical information, lead times, previous diversions, and planning and review requests submitted by the countries. These candidates are consolidated, prioritized, and forwarded to the headquarters, where they are again reviewed, consolidated, and prioritized. Items may be added, recommended quantities changed, or items deleted based on the reevaluation at each level.

While the focal points who are involved in more significant program participation appear to have a good understanding of the process for identifying the SDAF candidates, others further separated from program involvement appear to have less input into program decisions. One inventory management specialist interviewed who managed an SDAF item, the GFU-10 Ammo Loader (two each), bought by Eglin and received in inventory in 1985, did not know why it had been identified as a SDAF procurement, and no foreign customer had been identified to date for distribution of the item. This item is used with the GPU-5A Gun Pod. The manager was hopeful that USAF requirements for the assets would soon generate so that they could be used for USAF support. Records were maintained manually to retain visibility of the items.



According to two other interviewees, procedural problems were encountered with the delivery of the GPU-5A Gun Pods with spares support. Twenty were purchased at the end of an Air Force total production run. The material was shipped to Warner Robins with no guidelines or advance notification. They were picked up in the operating account and reported as on-hand assets. About \$100,000 of the spares support was shipped to other customers before controls were established. These items now have a manager review code, which means the manager must review transactions prior to release of any assets. Once again, management of the assets is through a manual effort. Instead of enabling the system to perform as designed without the necessity for human intervention, each requisition must be screened to determine if the assets can be released or if the requisition must be cancelled. The spares which were erroneously shipped have never been recovered. The interviewees said that a letter from the headquarters had been received directing that Warner Robins base supply buy the spare parts to replenish the account. The problem is that lead times for the spares are long and other spares may not now be procurable (19;26).

Items Purchased for the SDAF. The items purchased for the SDAF involve critical inventory items identified in support of all services. However, according to four interviewees, the DSAA preference for items selected for procurement appears to be for Army items which may be a logical conclusion based on the amount of dollars allocated to

the Army as compared with the other services. As supported in the literature review and during the interview process, the Air Force has been unhappy with the amount of support that the SDAF has provided for the items identified by the Air Force as candidates for procurement. The Air Force believes it has critical equipment-type items that need to be included in the procurement cycles for the SDAF but are not being accepted as candidates for procurement. The literature review provided some reasons why the SDAF may not be buying many Air Force items. According to some of the interviewees, an additional reason for non support of Air Force items is the DSAA procedure of using MIPRs which prevents the Air Force from using standard systems already in place. This makes spares more difficult to manage and control. Of the items which have not been requisitioned by foreign governments, several million dollars are tied up in Air Force inventory. The DSAA may, therefore, have natural reserves about buying Air Force parts. However, according to the literature review, the Air Force appears to have a valid point in that many of the F-16 equipment-type items are considered critical and meet all of the selection criteria as SDAF candidates for procurement.

Control of SDAF Items. This area involved analysis of two areas. The first was the control of the SDAF items where a contract modification had not been made for the direct shipment of items to a foreign customer. Rather, these items were delivered to the military department for storage and control pending sale to a foreign customer. The second area

evaluated involved procedures employed by the military departments to borrow SDAF assets if needed.

According to interviewees, the majority of the Army SDAF material is shipped into the depot for additional actions like inspection and test or assembly. Items are supposed to be picked up into a special storage account for hold until they are released through a normal material release action. However, when directed by DSAA, some direct deliveries to countries have been made. Although by regulation the material is generally supposed to be stored separately, it usually is not. Rather, it is commingled with other inventory. If the material is for payback of assets supplied from stock, then the material is transferred to the military department account when it is received at the depot. This involves manual tracking at this level. Based on the magnitude of Army involvement, steps have been taken to mechanize the inventory reporting and control by integrating SDAF requirements with standard systems. However, the other services, with much less experience with and involvement in the SDAF, have not initiated action to modify standard systems to accommodate visibility and control of the SDAF material. Therefore, the entire process for them appears to involves manual tracking and control. Most of those interviewed felt that more mechanized procedures needed to be established at the working level to maintain visibility and control of the assets and reduce manual workload involved in the SDAF program.

One of the criteria for procurement defined in the literature review is that material procured for the SDAF should be able to be used by the military departments to meet planned acquisition objectives if material is not sold to a foreign customer. Also, the law provides that items may be loaned from the SDAF to a military department as long as the military department pays the cost for restoring or replacing the equipment if it is requisitioned by a foreign customer (54:14-3;10:13). According to those interviewed, there have been very few instances where the U.S. government has borrowed or bought assets from the SDAF for use by a military department. The few instances found followed the published guidelines which required a signed loan agreement between the borrowing agency and the DSAA. One such example was for the loan of items from the SDAF at a contractor's plant to check equipment at that location. An example of an U.S. military department buy from the account was when the Army bought one STINGER. The buy was handled through a reverse MIPR, and the money was returned to DSAA (9). In other instances discussed by the interviewees, the military departments may have liked to borrow the material, but funds were not available to maintain the equipment as required by law. While not many examples were found to evaluate whether the military services were taking advantage of the opportunity provided by the law to utilize the SDAF assets, in a wartime situation the assets in the account would be available for use which would increase the U.S. readiness capability for required items.

Adequacy of Funding. In order to adequately support the SDAF program, the original capitalization level requested was \$2.1 billion by FY 1987. This level was based in part on the support provided to Israel during the Yom Kippur War in 1973. The current capitalization level is \$1.07 billion which is \$1.03 billion short of the original plan. This brings the fund to a supportable level of approximately 51 percent. During the interview with Mr. James, he expressed the opinion that if DOD goals were established to meet a 90 percent reduction in lead time for urgent items and protect withdrawals from U.S. inventories by a proportional percentage, then the account would need to be capitalized to around \$3 or \$4 billion. If the goal were only to help the most severe problems and provide support for the most critical items, then the current level may be sufficient. In addition, as long as the SDAF can buy and sell items rapidly, the procurement plan may meet many of the program objectives at around the \$300-million annual authorization level. Buying above that level may become risky, as assets may not turn over as rapidly. If the items remain in the inventory, then storage is necessary which defeats the purpose of the fund and takes on the qualities of a stockpile. This infers that either the incorrect items were purchased or the inability to calculate the market (12). This concept was supported by Mr. Mullins when he expressed that he believed the fund required around \$300 to \$400 million per year to be effective for significant contributions. As it is, he believed that only a marginal

contribution is being made. He felt that this level was also within the realm of current abilities to manage the program without increased resources to support it (18).

Legislation does not set a goal for support per se, other than it is the primary driver for how many critical items may be procured each fiscal year to support urgent foreign demands via the annual authorizations to obligate funds. As shown in Figure 4, obligation authority approved by the Congress has generally been less than what the Administration requested each fiscal year to support the planned SDAF procurements. This has resulted in the necessity to cut candidate items identified to support urgent foreign military needs and potentially improve readiness posture for those items cut from the plan. There appears to be no apparent pattern to the obligation authority approved versus what was requested. Congressional approvals range from around 50 percent in FY 1983 to 100 percent in FY 1985 and then begin a downward trend to 68 percent for FYs 1988 and 1989. During the interviews conducted, interviewees stated that the DOD has not believed the funding levels approved by the Congress have been acceptable (12;18). The general consensus of those interviewed was that more funds should be provided to enable procurement of additional critical items as a recommended program improvement. The level suggested to enable the SDAF to provide a significant contribution and still be within the realm of abilities to effectively manage the program with current resources was between \$300 and \$400 million per year.

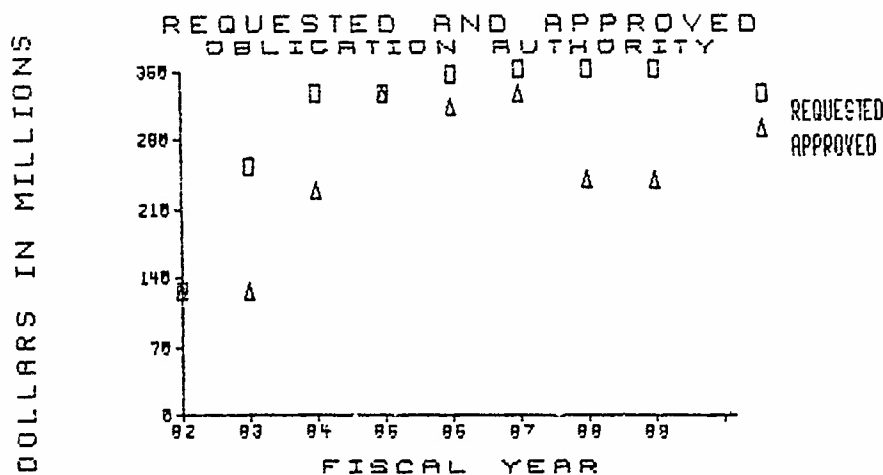


Figure 4. SDAF Requested and Approved Obligation Authority

Representatives from the DOD felt that the current funding authorizations by the Congress allowed marginal contributions in meeting the overall program intent of providing a means to respond to emergencies without adversely impacting the U.S. readiness posture.

Discussions by some of the interviewees during the interviews regarding items identified annually but never procured are related directly to the funding issue. For example, the Maverick IIR, an Air Force managed item, was submitted in the original FY 1988 procurement plan based on the requested \$'25 million obligation authority, but was one of the items which was subsequently cancelled after Congressional approval of a reduced obligation authority (55). Based on DSAA reviewing and prioritizing requirements, some items will naturally fall below others. When judgemental factors are involved in the decision making process, decisions

may not necessarily coincide with the priorities of others involved in the logistical processes of providing support for both the U.S. forces and foreign customers. According to interviewees working in areas where program participation has been limited and candidates are routinely not selected by the DSAA, the procedure has become somewhat frustrating to them. Additional funding would allow a wider range of priority items to be procured which would not only improve the readiness posture by allowing procurement of additional critical items, but would also reduce frustrations encountered in areas which are experiencing perceived non support.

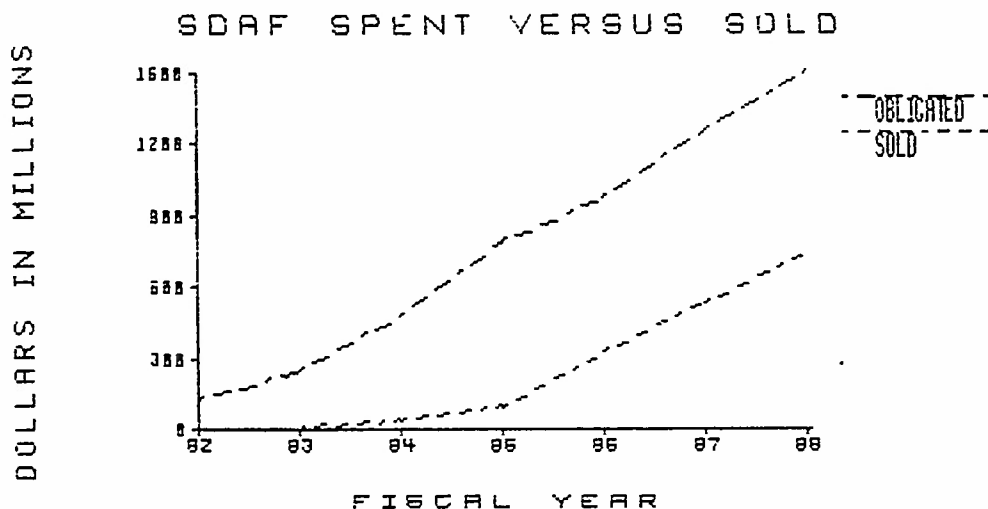
Requisition of SDAF Items. Foreign countries obtain the SDAF material through normal FMS procedures. DSAA evaluates requests to determine if the SDAF material will be used to support a particular requirement based upon knowledge available at the time. In addition, if the military department is aware of material in the SDAF which may be used to fill an FMS requirement, that recommendation may be made to the DSAA. The DSAA usually concurs with the military department recommendations. All interviewees stated that they did not know of any particular countries which enjoyed priority access to the SDAF-procured items. They stated that DSAA makes that determination. As shown in the literature review, this appears to be true. Any preference provided to countries appears to be based on political and military decisions made by the DSAA relative to what may be happening globally and the



equipment available through the SDAF at the time the request is reviewed.

One of the criteria for the item to be a candidate for procurement through the SDAF is that the lead time for the item should be at least two years. This naturally provides a lag in the time the money may be obligated to procure an item and when it is available to be sold to a foreign customer. According to interviewees, items cannot be sold to a foreign customer from the SDAF account until after the items are placed on contract with SDAF funds. With the program start-up late in FY 1982 and the administrative and procurement lead times involved for items, no sales were made during the first two fiscal years of the program. Figure 5 provides a picture of the cumulative SDAF activity from the program's inception through FY 1988. The obligated line shows cumulative obligations by the fund, and the sales line shows dollar values by fiscal year for the items allocated for sales or replenishments.

Some interviewees felt that since the build up of the account, the original intent to buy items to prevent diversions from stock and to provide reduced lead times for critical items had changed somewhat. They felt the DSAA has been trying to promote sales of items in the account to free up the money as opposed to the original intent. This would appear to be a natural inclination for the DSAA based on Congressional perceptions about the fund and the objection to stockpiling material. However, the question remains as to



NOTE: As FY 1988 was still in progress, final figures were not available.

Figure 5. SDAF Cumulative Obligated Funds Versus Allocated For Sales, FYs 1982-1988

which is the most important. Is it more important to have the critical items on hand in case of emergency needs to support adverse conditions which may resemble the stockpile concept, or is it more important to turn assets over more rapidly to portray success in meeting foreign needs to enable continuance of the fund? An acceptable position would seem to be to do some of both. By correctly identifying and providing the items most needed by foreign customers on an urgent basis, the fund may be reducing decisions to withdraw or divert material to meet foreign demands. There is no real way to evaluate whether diversions would have consistently been made to meet urgent foreign demands among all the

supported SDAF cases or whether the requests would have been denied if the support capability offered through the SDAF had not been available. However, there were some cited examples found in the literature and others found during the interview process which tend to support the intent of reducing withdrawals by providing the right SDAF items.

One case found during the interviews which was connected directly to this issue, however, was in recent support of an urgent requirement for the Philippines which would have been supported regardless of whether the SDAF was available or not. AN/PRC-77 radios with a procurement lead time of 24 months were diverted because of insufficient quantities in the SDAF. The military department was repaid in approximately 3 months as opposed to what could have been 2 years under pre-SDAF conditions (2). In addition, the literature reviewed supports some examples of items withdrawn from the inventory or diverted from production which were used to support foreign urgent needs. These included items such as ammunitions, STINGER missile systems, M60 machine guns, AN/VRC-12 radios, Jeeps, and AIM-9 missiles (37:4;38:4;39). These examples of diversions were also supported as a result of the interviews. Replacements for withdrawals and diversions were received by the military departments in a shorter timeframe as a result of the SDAF advanced procurements. These cases, therefore, have resulted in improved readiness by reducing lead times for military department inventory replacements by that degree of time that

delays were reduced. Other cases supported by the literature involve SDAF support of urgent foreign needs for ammunitions that precluded withdrawal from the military services in support of Honduras, El Salvador, and Costa Rica (11). Thus, precluding withdrawals has also met the intent of the SDAF and has resulted in improved readiness to a degree.

The turnover rate of the assets within the account, which equates to items being requisitioned by the foreign customers, appears to be adequate. The overall goal according to DSAA is to sell approximately \$200-\$300 million in SDAF items each year (18). The Army has currently established a first-year goal of 80 percent turnover of assets from the time the item is placed on contract. If the assets are bought in FY 87, for example, 80 percent should be sold by the end of the next fiscal year. For fast-moving items like radios and ammunitions, the turnover is around 90 percent. Other slower-moving items usually have a lower turnover rate, which may be around 50-55 percent during the first year. As the higher-dollar items begin to be delivered under the contract, however, the turnover rate is increased. Within the Army, fast-moving items are generally bought each year, while slower-moving items are generally bought about every two years (62).

In evaluating the Army Missile Command, the turnover was computed as follows. Every item purchased was counted, not just the end items. For example, if 1,000 TOW missiles were bought, all 1,000 were counted. The figures were rough

estimates and did not include FY 1988 buys. An item sold from the SDAF account was considered when it had been (1) offered to a country and the case accepted; (2) offered to a country and the official reply from the country had not been received confirming the case; (3) already allocated by DSAA. That Command had purchased 26,520 equipment-type items and had sold all but 3,276 items from FYs 1982 through 1987. This equates to a rate of around 88 percent, which the interviewee felt was very good. In the case of concurrent spare parts which are small dollar repair parts needed to fix the equipment, the percentage was not as good. When a country wants to buy an end item, a listing of the concurrent spare parts is provided for selection of the desired items. Of the 290 purchased, 134 had been sold (9).

According to the 1987 Inspector General audit discussed in the literature review, the fund had obligated \$1 billion at that time. Of the \$1 billion, the study found that approximately \$47 million in material purchased could not be readily used by the military departments and was possibly not saleable to foreign customers. This equates to approximately 5 percent of the items that were either incorrectly selected or had changing market conditions. This percentage appears to be within an adequate range. Additionally, two interviewees stated that if a wartime condition were to arise, these assets would likely be used by the military departments even though no peacetime requirement had generated for use.

Lead Time Reductions. The literature review adequately supported reductions in lead times for the equipment which has been requisitioned by the foreign countries thereby reducing the likelihood of withdrawals or diversions from U.S. military departments to support urgent foreign requirements.

The availability of inventoried items in themselves results in a reduction in delivery time frames. For this reason, all SDAF sales to FMS customers have benefited from the availability of SDAF inventoried items [17:2].

Lead time reductions have also been experienced in pay back of assets to the military forces when diversions have been made which has improved U.S. readiness through these reduced lead times. The consensus of those interviewed was that the use of the SDAF had reduced or could reduce lead times for equipment. When limited experience was available with dealing with items in the fund, interviewees felt that with more participation in the program, this method would improve support for the urgent needs of U.S. foreign customers and protect critical U.S. equipment. In the case of the AN/VRC-12 and AN/PRC-77 radios, lead times for providing the assets to foreign customers have been reduced from 36 to 12 months and from 24 to 9 months respectively. Where it previously took 24 and 36 months for a country to obtain the radios, they are available in about 9 and 12 months (2). Another example of a long-lead-time item was found with an expensive radar system, with a lead time of from 36 to 39 months. Where the previous lead time to support an urgent

foreign requirement may have been the 36-39 months unless diverted or withdrawn, this can typically be offered to a country now in as short a time as 6 months (62). The administrative time involved in the LOA process will always be there and must occur, but the item administrative lead times have been eliminated and production lead times shortened or eliminated for critical items bought by the SDAF (12,62). If a military service only buys items annually via a consolidated procurement and later receives requirements from a foreign country, then support must be deferred until the next annual procurement unless the SDAF has bought items on the contract.

Consolidation of Buys for Mutual Savings. While savings as a result of consolidated buys were mentioned throughout the literature, the researcher was unable to obtain any concrete figures to support this claim. None of the people interviewed had data available to show mutual savings. Furthermore, the DOD Inspector General was unable to compute such benefits (17:2,4). It would, however, seem logical that increased quantities would result in lower unit costs. Some cited examples of unit cost reductions included the tactical Army radios, CBU-87 bomb, communications security equipment, and the Basic STINGER, but dollar amounts were not found (55). Based on analysis of the results of the interviews, the answer to this question was determined to be part of the secondary objective for the SDAF to increase efficiency and reduce costs for mutual savings by smoothing rates of

production. Therefore, while savings should certainly be sought during the procurement cycle, they are not as important as reducing lead times to support urgent foreign needs and protecting U.S. readiness by reducing diversions and withdrawals of U.S. inventory as far as the intent of the SDAF is concerned.

Critical Drawdowns Since the SDAF's Inception. There have been no major critical drawdowns of military equipment since the inception of the SDAF which could be compared to what was experienced during the Yom Kippur War. Critical drawdowns of individual items were therefore the area of concentration for analyzing this investigative question. One example of a critical drawdown was provided earlier in support of the Philippines when radios were provided from Army inventory. According to other interviewees, drawdowns have also been experienced with missiles and communications systems. These drawdowns have resulted in a temporary adverse readiness impact. However, with payback from assets on order through the SDAF, the impact has been lessened by the degree of the difference in the normal lead time to buy items and reduced lead time to receive payback with the SDAF on-order assets. Still additional interviews indicated that while it was expected that diversions had been precluded as a result of the SDAF procurements, no examples were available to indicate that the military service was prepared to divert assets to support the particular urgent foreign need. Because many critical items have been made available through



the SDAF, there would be no way to really evaluate the significance of diversions and adverse readiness impact upon the U.S. government that may have occurred had items not been available to meet urgent needs of foreign allies and friends. According to Mr. Don Wright, the Army has experienced gradual improvements through use of the SDAF since its inception in 1982. As a result of the SDAF, fewer diversions and drawdowns are being experienced each year which lessens the adverse impacts and increases the readiness posture (62).

Relative Importance of SDAF Objectives. The three objectives identified for evaluation were taken from an article written by Mr. Langley B. James and was presented in the literature review. The researcher wanted to determine if any one objective was more important than another and how the objectives were perceived at the various operational levels within the program. Therefore, each interviewee was asked to rank the objectives in their order of importance.

1. Enhance the President's ability to react to foreign policy requirements involving security assistance by providing capability to fulfill urgent needs of allied and friendly governments for military equipment while minimizing the adverse impact on the combat readiness of U.S. forces;
2. Provide an effective means to assist in smoothing rates of production, thus increasing efficiency and reducing costs of both foreign and Defense Department weapons procurements;
3. Reduce procurement leadtimes for delivery of weapon systems to foreign governments, or, where items must be taken from U.S. forces, for payback to U.S. forces [11:2].

While most interviewees felt that objective one and three were very closely related, three interviewees believed that objective one was the most important and five believed it was the second most important. The converse was true with objective three. All interviewees believed that objective number two was the least important of the three objectives. This parallels the comments provided by Mr. James during a telephone interview, in which he stated that smoothing rates of production was a secondary objective, or a "side purpose" of the program to try to mesh buys in with production for more efficient levels to reduce peaks and troughs, with the primary objectives being to minimize the adverse impacts upon the military departments and reduce procurement lead times for foreign governments and paybacks to U.S. forces (12). During the interviews, relatively few examples were provided of instances where production lines were kept open as a result of the SDAF. One example provided was for the CBU-87 munitions. During the last month of the first year's production, the Air Force did not have the money to keep the line open. The SDAF placed items on the contract to keep it open (13).

Additional comments were provided by Mr. Don Wright, the USASAC SDAF Coordinator, in his evaluation of this question. Accordingly, the kind of answer obtained may vary depending on the functional involvement of the person. For example, if asking a person involved with the Industrial Preparedness Program, he may believe that objective two was of primary

importance (62). However, based on the answers provided by the people actually involved with working the program, the objectives appear to be in line with the overall intent. Those who felt objective one was the most important tended to be in the upper echelons of program management, while those who felt objective three was the most important were at the working levels actually dealing with the day-to-day operation of the program. This leads one to believe that the objectives are well understood by those working with the program at all levels.

The interviewees were asked to rank the success of the SDAF in achieving its objectives. The scale used was very successful, successful, moderately successful, somewhat unsuccessful, and unsuccessful. The perceptions in this area were more varied. One felt that program had been very successful, one stated that it was between successful and very successful, and another said that the SDAF had been successful. One interviewee felt the program was only moderately successful, while two believed it to be somewhat unsuccessful and two felt it was unsuccessful. The more positive comments were from those people who had more experience and participation in the program. Based on evaluation by the interviewees who had less participation in the program and those whose experiences had not been favorable based on their perception of inadequate policies and procedures to operate the program and poor program administration, responses were that the program was less than

successful. Also cited as problems in accomplishing objectives was the DSAA preference for buying Army items. reluctance to purchase spare parts even though they may be more difficult to manage, and not enough money to buy major equipment. However, some interviewees felt that good things were being accomplished with the fund and others believed that the intent was good and improvement in the program's administration would lead to increased program success.

Readiness Impact. According to the literature review and the majority of the interviewees, the readiness posture has been improved for both foreign customers and United States forces insofar as being able to support those items available with limited SDAF funding. This improvement has been gradual from the beginning of the program in FY 1982, resulting in fewer withdrawals as the time has progressed. It is difficult to evaluate the total readiness impact, and a percentage of improvement cannot be applied. Rather, impacts must be looked at on a case-by-case basis. There are relatively few examples which indicate that the forces were prepared to divert assets to meet a foreign urgent demand. As it is, numerous countries are being supported with military equipment in less than normal procurement lead times. Therefore, one may conclude that readiness has been improved by some immeasurable percentage. However, this leaves those items which remain in the SDAF awaiting requisition. There is no viable method to determine if those items would be required on an immediate basis if a major

conflict erupted. On the other hand, even excluding those items which could be determined to be unusable to the military departments, were the U.S. to engage in a conflict and require additional inventory, increased ranges of items would be available in the SDAF for military department use. This meets one of the criteria paramount to SDAF candidates, which is that items should be usable by the military departments and meet established acquisition objectives. This would increase readiness proportionately with the range of required items. The desirable items are being provided with reduced lead times as is evident by the number of cases supported by the SDAF procurements. This reduction of lead time for the items desired by foreign countries leads to a political perception of the United States' improved support to foreign allies. If the United States is able to provide the desired support in less than normal lead times, then the United States must be a friend, with a resultant increase in credibility. While trust is not measurable in terms of readiness, this aspect must also be considered in the overall readiness impact.

Two additional readiness impacts were noted in evaluating the SDAF which are not included per se in the original intent of the fund. The first impact involves the ability to improve the readiness of the U.S. forces through the procedure buying newer versions of equipment which are actually authorized for release to a foreign customer through the AECA and then transferring the older version of the

equipment into the account when contract deliveries are made. This increases equipment modernization for the U.S. forces without the requirement to expend a great amount of DOD funds. This advantage, supported by the GAO findings discussed in the literature review, would be further enhanced if approval were granted by the Congress for the SDAF to buy certain systems which are currently not releasable to foreign governments but have a high likelihood of being approved. This would provide for upgrading the inventory for U.S. military forces if the system has not been approved for release at the time of contractual delivery, since the older, approved version could be supplied to a customer from stock. It would also reduce the chances of procuring systems which may be less desirable for use by the U.S. forces because of nearing obsolescence if they were required to use or buy the assets in cases of emergency or nongeneration of a customer.

The second impact which was not specifically addressed in the original intent of the SDAF involves improved and sustained readiness and interoperability with NATO and other countries. Sales and deliveries from the SDAF for items like TOW-2 anti-tank missiles, the MLRS, Maverick air-to-ground missiles, and radios and radars have been cited in the lit. as impacting this area (47:638). Although this area was not specifically mentioned in the original intent of the SDAF, supporting allies in this manner by accelerating deliveries of urgently needed items and application of items to smoothing NATO force modernization are of benefit to the

joint readiness for the United States and its allies. If the United States plans to rely on allies in cases of emergency or warfare, then standardization of material through improved inventory support to enhance allies' readiness would lead one to the conclusion that both allies and U.S. forces benefit in the readiness improvements afforded through the use of the SDAF.

#### Recommended Improvements

Appropriate remedies have been initiated to correct problems identified in the literature to improve the management of the SDAF. To parallel the recommendation presented to the Congress to extend the obligation authority to more than one year, most of the interviewees identified this area as a recommended improvement for the program. Based on the latest data available, it appears that this initiative will be approved beginning in FY 1989 (18). Other concerns which were not adequately addressed in the literature but surfaced as result of the interview process dealt with the daily operation of the SDAF at the worker level. Recommended improvements included a means to facilitate better asset and funds tracking and asset control at the depots, standardized procedures utilizing systems already in place within the military departments, and more participation in and feedback on SDAF decisions. Some felt that more specific and detailed operating instructions should be provided to allow more effective and efficient management

of the fund. Based on perceived inadequacy of procedures, these interviewees felt that there was general confusion in trying to support the program.

Within the Air Force, the largest problem identified was program implementation with the use of MIPRs, which automatically handicaps effective management by circumventing normal program and financial reporting. Management requires "manual monitoring or changes to automated systems to include a program whose resources are the responsibility of an outside agency" (17:3). While recommendations have been made to the DSAA to improve this area, they have been essentially unsuccessful (17:3). Since the current operation of the fund is outside the routine system processes, the SDAF appears to be run on an exception basis which circumvents normal processing and leaves a large margin for error in program administration and management.



## V. Conclusions and Recommendations

In essence, the SDAF is doing what it was established to do. The intent has been documented, reiterated, and clarified as the years have gone by throughout the literature. Especially apparent are Congressional concerns that the SDAF remain to perform as it was originally intended for support of urgent foreign demands for items through reduced lead times while protecting the readiness of the U.S. forces. There have been many supporting examples provided to show that lead times in support of urgent foreign requirements have been reduced and diversions or withdrawals have become less frequent. Furthermore, the SDAF has impacted other areas above its original intent by providing benefits in improved readiness and interoperability with NATO and other allies and providing a means to somewhat upgrade the U.S. material by buying newer versions with SDAF and then supplying the older versions of systems to foreign countries.

The degree of success and effectiveness of the SDAF, however, appears to be limited by a few factors. Funding has not been at the recommended levels, precluding the attainment of maximum support by allowing procurement of only the highest priority items. In addition, procedures for the operation of the SDAF have not been clearly stated or defined at all levels throughout the DOD. Operational areas which are involved routinely in the program and encounter significant participation have fewer procedural problems than do those who deal

with the program on an infrequent basis. It is the opinion of the researcher that the limited involvement in some areas has also led to dissatisfaction expressed with the overall accomplishment of the objectives. This was especially apparent in areas where the only involvement with the SDAF is with material purchased which is still in storage at the military facility and has not been used to fulfill foreign obligations. In these instances, a great deal of frustration with the operation of the fund has been expressed. There have also been complaints about the DSAA preference for buying Army material, which has further limited the involvement of the other services and advantages offered by the program in improving readiness and reducing lead times for critical items for foreign support. With the visible advantages offered through use of the fund, it is only natural that all areas want to participate to improve their processes.

In evaluating current world occurrences, there are conflicts which emerge in the developing nations, and internal threats to the stability of these countries are continual generating the need for support of urgent requirements. Many of these Third-World countries may be involved at any time in low-intensity, ground conflicts, and do not have the capability and possibly should not be offered the capability accompanying the more advanced technology which other countries may enjoy. Since it is not within the scope of the research project to evaluate what countries should or should not have, the evaluation of needs for developing nations will

be left at that level. However, low-intensity ground conflicts do generate a need for items like ammunition, radios, and guns which are managed by the Army. It is therefore the researcher's opinion that the Army should be given the preponderance of participation for these kinds of applications. There are also numerous other countries supported with SDAF material that do have urgent needs and enhanced technological capabilities. With this overall program support in mind, the researcher therefore recommends that the DSAA reevaluate the methods used for prioritization of SDAF candidates to ensure that personal bias is not entering into decisions for procuring certain items as opposed to others.

Furthermore, the researcher believes that a lack of extensive participation by a military service is not a valid excuse for lack of communication and feedback from the highest levels of program management on down to the people who perform the logistical functions of actually buying, selling, and distributing the material. When year after year the managers are required to submit candidates for procurement and never see any results, managers often become frustrated with the results of their efforts and wonder about the usefulness. Thus, the researcher believes that good communications including discussions on the results of Congressional reviews and what happened to the candidates submitted should be provided routinely to all levels as a standard management practice.

Communications also involve providing the managers with the written tools to accomplish their jobs. Based on review of the directives and regulations available, improvements could be made in the detail offered. Specific directions should be provided to managers encompassing the "cradle to grave" approach. Specifically, detail should be provided on exactly how to identify items as candidates. For example, areas like what constitutes a high degree of usage for item criticalness may be discussed. Specific guidelines should also be given on how to control and store the material if it is received at the depot, especially in areas where managers are managing SDAF material manually. All other logistics functions should be adequately explained on program management until the item is either shipped to fulfill an urgent need or must be disposed of because of obsolescence. The researcher believes that consistent procedures should be developed for all services and should also include and define the unique situations encountered among the different military services.

While the literature reviewed and the intent is well documented and understood at the top levels, many managers at the actual operating levels suffer various degrees of confusion and uncertainty when trying to deal with the processes of identifying, controlling, and accounting for the SDAF material. While some areas are more advanced in mechanization efforts to deal with the SDAF, other areas have made little headway in converting the manual processes employed to handle the SDAF to mechanized processes. This

reduced mechanization is probably the result of lesser involvement with the program. However, the researcher believes that consideration should be given to either adapting the SDAF program to coincide with all standard military systems or putting up the dollars to modify the systems to accommodate the SDAF. This mechanization would facilitate better management of the fund, including better asset reporting procedures, and would help ensure that the fund was being utilized to its fullest through proper accounting and billing procedures to correctly recoup dollars on an expedient basis when items are sold.

The SDAF was founded from a need to protect the United States' readiness while still providing friends and allies with the support they needed to protect themselves. To this end, the intent of the SDAF has been met in varying degrees based on funding and resultant support of foreign needs. An actual number cannot be assigned to evaluate the benefits provided for readiness with the use of the SDAF. Rather, the benefits to readiness must be made based on a subjective evaluation. Regardless of inadequate funding and possible procedural problems identified in the management of the fund, readiness has been improved by reducing withdrawals and diversions from military inventories. Additionally, if the items supplied have precluded the necessity for the United States to intervene in a conflict, then the usefulness of the fund has been increased that much more.

The SDAF is doing a good job. It is the opinion of the researcher that foreign customers are benefiting by receiving their urgent materiel requirements in shorter times than were experienced before the SDAF and that U.S. forces have improved readiness by reducing withdrawals from inventory and diversions from production for critical items. With increased authorizations for funds via Congressional approval and improved management practices, the Security Defense Acquisition Fund should do even better.

Appendix A: Introductory Letter and Interview Guide

AFIT/LSG

Subject: Interviews for SDAF Thesis Information

To:

1. I am a graduate student in Logistics Management at the Air Force Institute of Technology (AFIT), Wright-Patterson AFB, Ohio. I have chosen the Special Defense Acquisition Fund (SDAF) as the topic for my thesis.

2. In order to obtain as much information as possible about the SDAF, I will be conducting telephone interviews to obtain pertinent facts and opinions about the SDAF. This letter and the attached questionnaire are being provided to you in advance of the interview so that you will be aware of the purpose and have knowledge of the questions to be discussed. The questionnaire has been developed as a guide and will be used with several respondents. Therefore, there may be questions which do not fall within your area of expertise.

3. The information obtained from the interviews will be consolidated and presented within the thesis. Anonymity will be given if requested. If you desire anonymity, either partially or entirely, please let me know at the appropriate time. Please do not reference classified information during the interview.

4. The telephone interview will last approximately 15 to 30 minutes, depending on the level of detail you present. I will be calling you next week to arrange a time. Because of your involvement and expertise in this area, your input is very important to the success of my research effort. I am looking forward to speaking with you.

NANCY MORSE  
Graduate Student  
Air Force Institute of Technology

1 Atch  
Interview Guide

## SDAF INTERVIEW GUIDE

Do you want anonymity? Total \_\_\_\_ Partial \_\_\_\_ None

Interviewee Name:

Rank:

Duty Title:

Organization and Office Symbol:

Telephone Number (AUTOVON):

Date of Interview:

### Questions

1. How are SDAF items identified for procurement?
2. How does a foreign government obtain the SDAF items?
3. Are there any particular countries which enjoy priority access to SDAF-procured items? If so, which countries?
4. Are there written guidelines within your agency for buying and distributing SDAF items? If so, what are they?
5. How are the SDAF items controlled? If an item has not been identified for direct shipment to a foreign country prior to delivery, what kind of procedures are used to account for material?

Material delivered but not used by the military department?

Material in use by the military departments?

6. Has the use of the SDAF resulted in an overall reduction of lead times from the time a country requests an item until it is received or just a reduction on certain items? What are some examples.
7. If the criteria used for buying specific SDAF items was  
(1) to keep a production line open prior to placing FMS items



on contract or (2) to keep a production line open for base mobilization purposes, what are some examples?

Items procured

Contractor Facility

Approximate date this occurred

Was it for reason 1 or 2

8. What has been the overall turnover rate of items bought for the SDAF since 1982? Do you feel the percentage is acceptable? Why or why not?

9. How many dollars have been expended on SDAF items to date and how many dollars have been recouped (actual/committed)?

Dollars expended

Dollars recouped

10. I understand SDAF buys are generally consolidated with military service buys for mutual savings. How much savings have accrued to date? What are some examples?

11. Have any critical drawdowns of U.S. inventory been experienced since the program's inception? Have SDAF items been used to replenish the services for such drawdowns? What are some examples?

12. What has been the readiness impact of the program?

13. Please rank the following three SDAF objectives in their order of importance with number 1 being the most important and 3 being the least important.

Fulfill urgent needs of allied and friendly governments for military equipment while minimizing the adverse impact on the combat readiness of U.S. forces.

Provide an effective means to assist in smoothing rates of production, thus increasing efficiency and reducing costs of both foreign and Defense Department weapons procurements.

Reduce procurement leadtimes for delivery of weapon systems to foreign governments, or, where items must be taken from U.S. forces, for payback to U.S. forces

14. Do you believe the SDAF has been successful in accomplishing its intended objectives?

Very Successful	_____	Moderately Successful
Successful	_____	Somewhat Unsuccessful
Unsuccessful		

15. If you could make improvements to the program, what would they be?

## Appendix B: Research Participants

The following people provided their time and knowledge as interview participants addressing historical and background information, SDAF operation, and concerns about the program. Their comments and input to this research effort were invaluable.

Bruski, Rick, GS-13, Logistics Management Specialist, Plans and Development, Air Force Logistics Command, International Logistics Center, Wright-Patterson AFB OH

Chapman, Marie N., GM-13, Chief, Communications Branch, Directorate of International Programs and Logistics, U.S. Army Communications Electronics Command, Fort Monmouth NJ

Hodge, Helen J., GS-13, International Program Management Specialist, Security Assistance Management Directorate, Regional Field Staff Office, U.S. Army Missile Command, Redstone Arsenal AL

James, Langley B., GM-15, Former Deputy Chief, SDAF Division, Defense Security Assistance Agency/Plans-SDAF, Washington DC

Leeper, William C., Lt Col, USAF, Chief, Acquisition Management, Directorate of International Programs, Department of the Air Force, Washington DC

McIntire, Thomas E., GS-13, FMS Financial Specialist, SAF/ACCS, Deputy Comptroller, Cost and Economics, Security Assistance Division, Washington DC

Mullins, Jack, GM-15, Deputy Chief, SDAF Division, Defense Security Assistance Agency/Plans-SDAF, Washington DC

Padgett, Hudson, Jr., GS-12, Chief, International Logistics/Data Systems Office, Directorate of Materiel Management, Warner-Robins ALC GA

Pettersen, Eric M., Major, USAF, Program Manager, Plans and Development, Air Force Logistics Command, International Logistics Center, Wright-Patterson AFB OH

Samelson, Dr. Louis J., GS-13, Professor and Deputy for Research, and Editor, The DISAM Journal, Defense Institute of Security Assistance Management

Schmidt, Joanie, GS-12, Supervisor, Ground Support Equipment Unit, San Antonio Air Logistics Center, Directorate of Material Management, Kelly AFB TX

Speirs, Jean, GS-12, Inventory Management Specialist, International Logistics Unit, Ogden Air Logistics Center, Directorate of Materiel Management, Hill AFB UT

Tolbert, Harold, GS-11, International Logistics Specialist, International Logistics/Data Systems Office, Directorate of Materiel Management, Warner-Robins ALC GA

Wright, Don, GS-14, SDAF Coordinator, U.S. Army Security Affairs Command (USASAC), Alexandria VA

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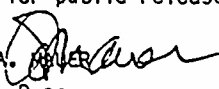
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## VITA

Ms. Nancy P. Morse was [REDACTED] where she graduated from [REDACTED] and from Weber State College with a Bachelor of Science in Logistics Management. Her career as a civilian with the Air Force has involved many challenging positions and opportunities. In 1975, Ms. Morse was selected by the Directorate of Materiel Management, Ogden ALC, to participate on a two-year career broadening program where she trained in all directorates and staff organizations to learn logistical interfaces. Following that program, she was involved at various times in her career with international logistics, wartime requirements forecasting, the Planning, Programming, and Budgeting System (PPBS) requirements forecasting, and has been instrumental in developing and implementing several computer systems within the Ogden ALC Materiel Management Directorate. Prior to entering the Air Force Institute of Technology to complete her Master of Science in Logistics Management in 1987, Ms. Morse worked as a project officer with new and enhanced computer systems coming on line at Ogden.

Permanent Address: [REDACTED]  
[REDACTED]

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This research presented an overview of the historical background which led to the creation of the Special Defense Acquisition Fund (SDAF) and an analysis of the program to determine if it had improved the readiness posture. Utilizing both the review of available literature and personal interviews, it presented discussions on the SDAF's objective to provide equipment to meet urgent foreign needs or payback of equipment to military departments while minimizing adverse impacts on the combat readiness of U.S. forces. Also evaluated was the secondary objective of smoothing production for increased efficiency and cost savings for both foreign and Defense Department procurements.

In presenting the results of this research, criteria for identifying and selecting candidates for procurement was evaluated as well as the account funding and capitalization. The SDAF operation was also explained from the point of the decision to buy an item utilizing the SDAF through the allocation of assets to meet foreign requirements. Included in this discussion were highlights of current sales efforts supporting the objectives of the fund. Program limitations to effective SDAF management were identified and actions initiated to either enact legislative change or implement improvements for better management were addressed. Information was also provided showing what items have been purchased and allocated and the fund's financial status. Further, a discussion was presented to address the adequacy of account controls and procedures. Additional Congressional concerns regarding the intent of the SDAF were also presented.

The conclusion as a result of this research was that the SDAF has improved readiness and has fulfilled its intent within limitations. However, funds have been inadequate for optimal support, and improvements in written and mechanized procedures as well as communications among all levels of managers were needed. The SDAF has also improved other areas not defined in the original program intent.

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